The Business Advocate Magazine

Nation's Business

October 1982

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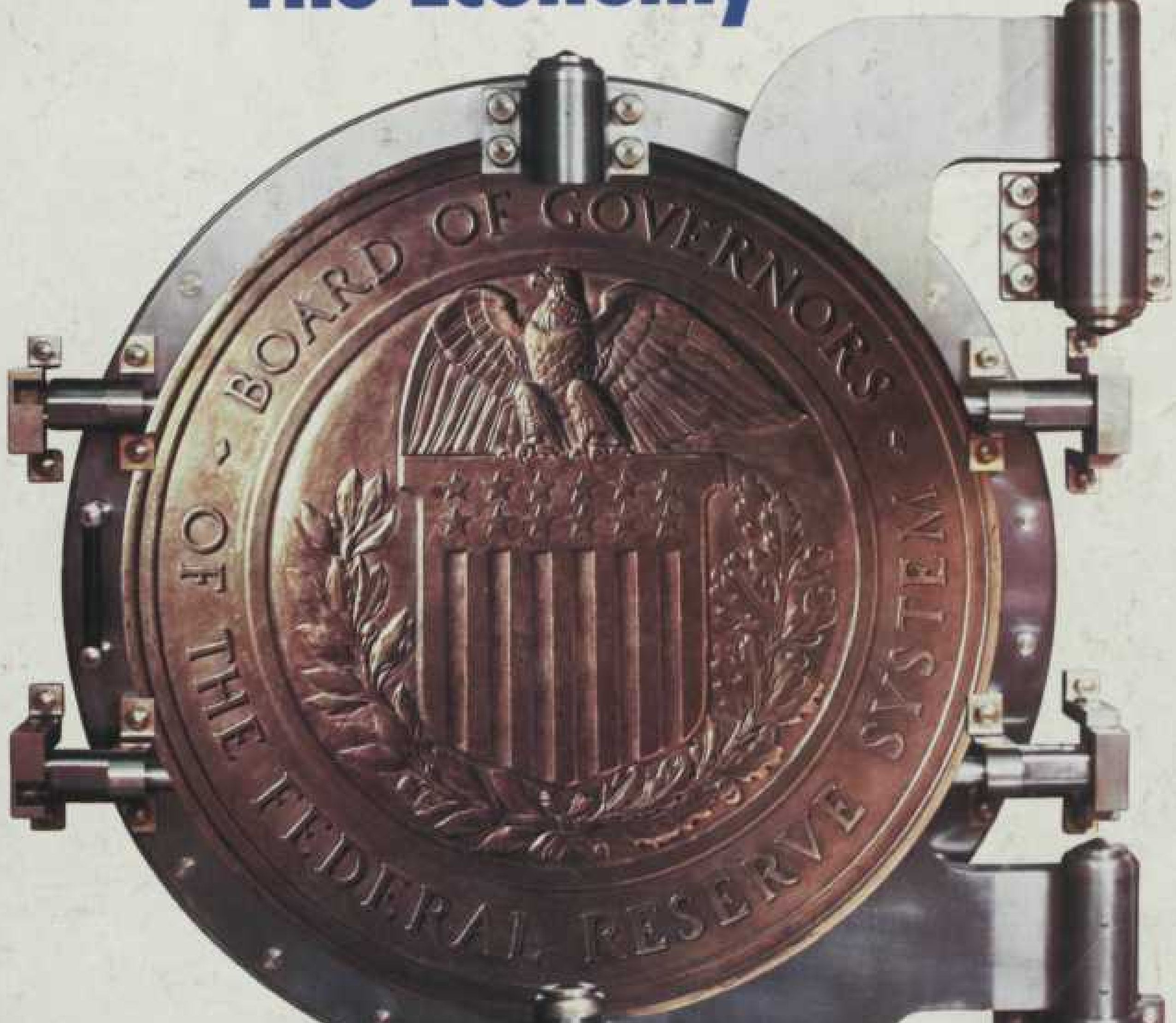

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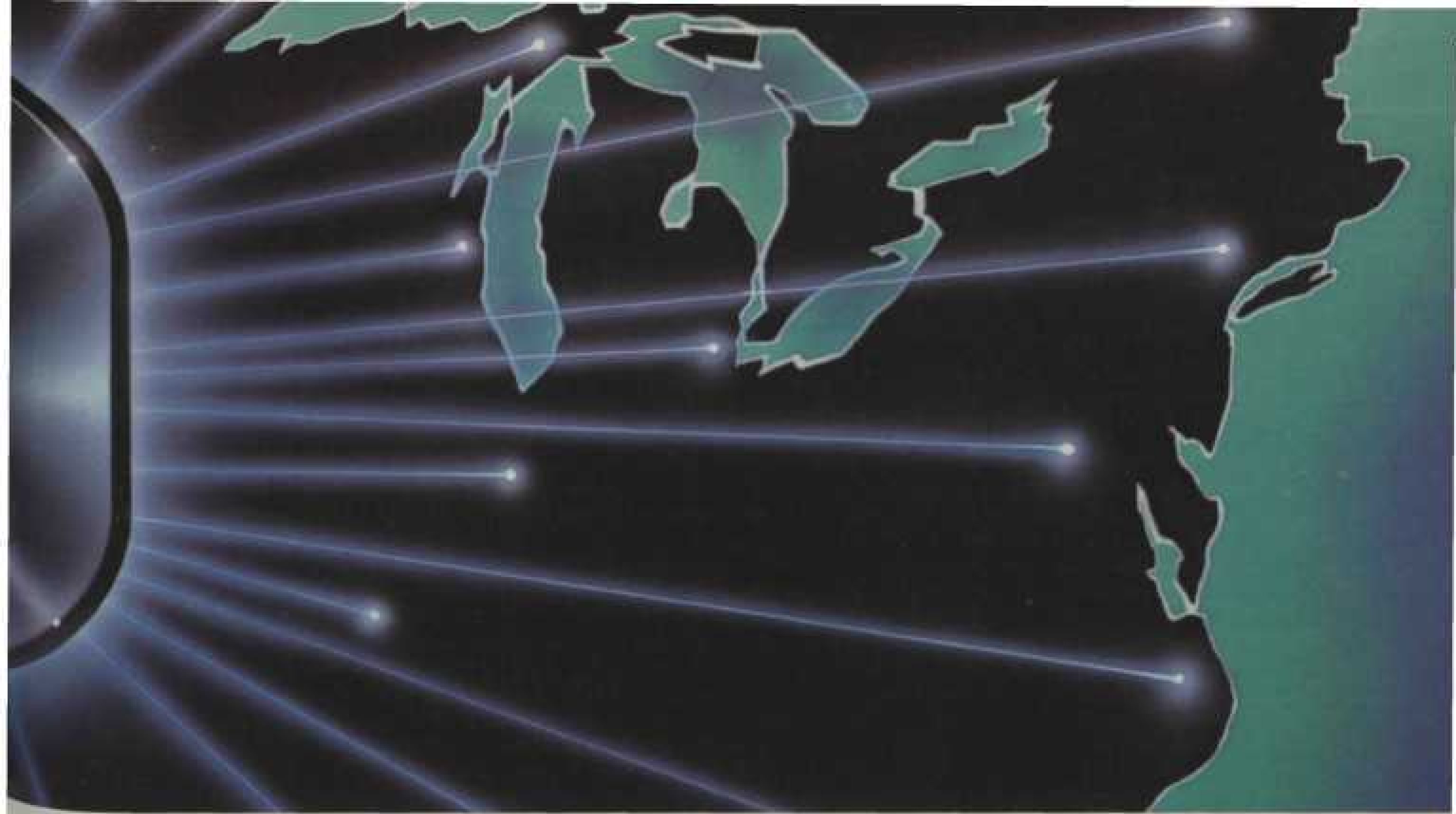

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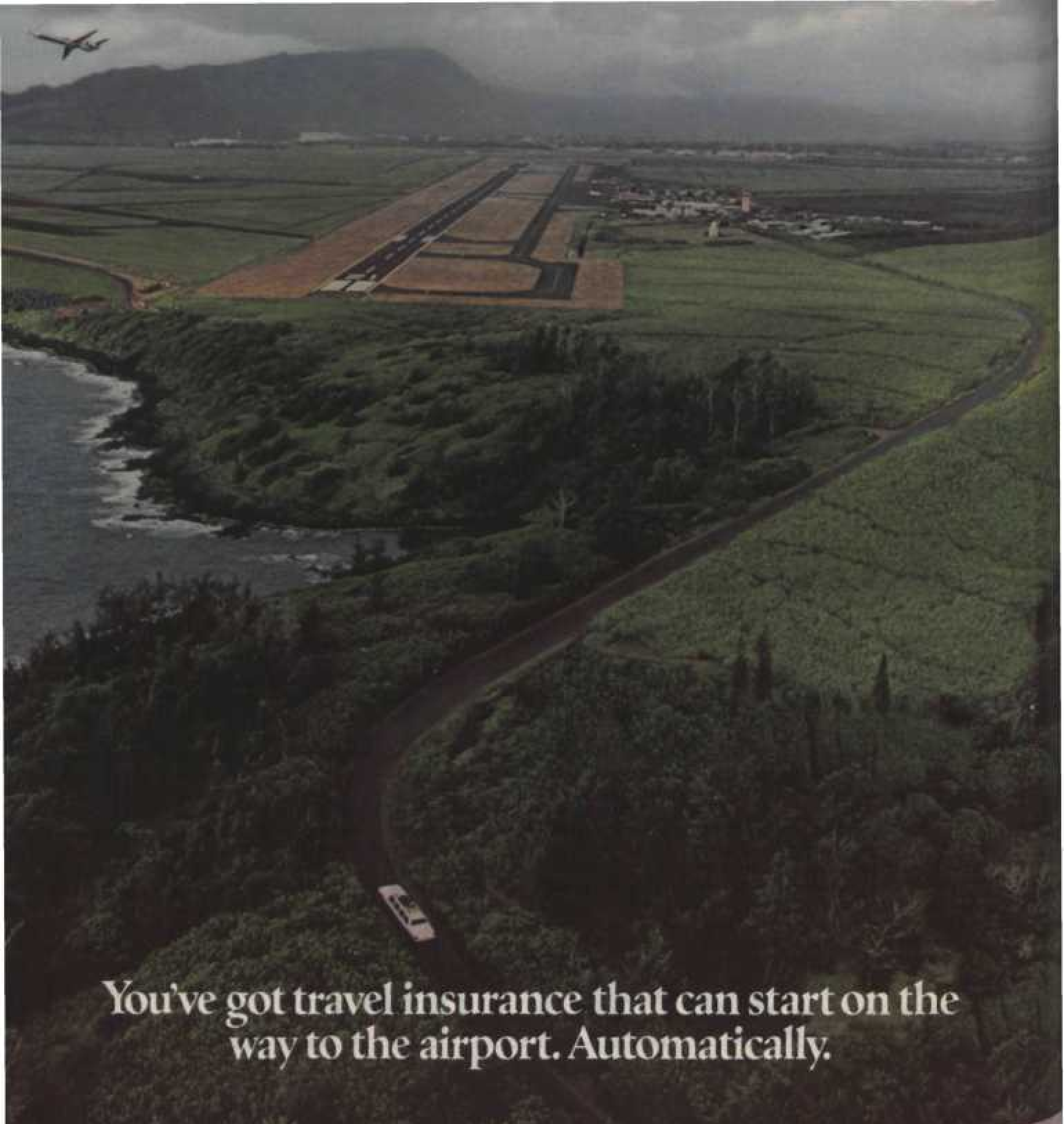
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WASHINGTON LETTER

▶ REPUBLICANS FACING ELECTION contests November 2 are cautiously optimistic that the economic scenario they fervently wished for may actually be developing. Candidates hope that the bull market on Wall Street, declines in interest rates, continuing low inflation and possibility that jobless rate has peaked will add up to voter perception that recovery has begun and worst of the recession is now behind. However, incumbents, both Republicans and Democrats, could still face problems because of economic conditions in particularly hart-hit areas, such as farm states, auto-industry centers.

▶ REGARDLESS OF WHETHER recovery takes hold, the recession will remain focal point of sharply intensified political drive by organized labor. The goal is to recapture political support of union members who gave strong backing to candidate Reagan in 1980. The strategy is an effort to convince workers that Democratic Party is their natural home, that GOP is the camp of the bosses. Labor drive takes two routes. AFL-CIO President Lane Kirkland and other officials press anti-Reagan theme, while unions step up significantly their financial support for favored congressional candidates, nearly all Democrats.

▶ SECRETARY OF STATE GEORGE SHULTZ gets high marks from Congress and from foreign service professionals for the way he's handled his tough job during early phase. He's already credited with major role in Reagan's Middle East initiative, which went a long way toward countering criticism that administration lacked a coherent policy for that troubled region. Shultz also had important role in containing the dispute between the U.S. and European allies over sanctions on foreign companies that supplied equipment for Russian natural gas pipeline to Western Europe. That dispute is a long way from resolved but appears less likely to be escalating to a point where it would cause major disruptions between U.S. and its NATO partners.

▶ ALTHOUGH REAGAN ADMINISTRATION points with pride to sharp drop in inflation rate, some of the President's fiscal-policy critics want to use that development against him in the continuing battle to restrain federal spending. Administration wants change in living cost adjustments for Social Security and other open-ended social programs. Now some in Congress argue that the consumer price index gains, which trigger the adjustments, are moderated so much that the problem isn't as serious as it was.

▶ ANOTHER ARGUMENT stemming from tamer inflation: The three-stage income tax relief voted by Congress in 1981 was designed in part to give inflation-beset workers more purchasing power. Now, the argument goes, inflation is down so significantly that preserving the 10 percent tax cut scheduled for next July 1 isn't so important after all. Administration rejects that argument, as well as the one on cost-of-living adjustments, and intends to move ahead with its plans in both areas.

▶ PROPOSALS FOR POSTELECTION SESSION of Congress come from two quarters. Some members, notably Senate Finance Committee Chairman Bob Dole and House counterpart Dan Rostenkowski, suggest Social Security should be dealt with by the end of this year so that complex debate sure to develop won't interfere with schedule of 1983 session. And one group of

advisers to President Reagan wants him to call special session for action on the balanced budget amendment to the constitution. They say pre-election call for special session would help reassert GOP stance on spending restraint in wake of tax increase backed by Reagan, with actual session to begin about mid-November.

▶ THERE MAY OR MAY NOT BE a special session of Congress, but one postelection development that appears certain is a new effort by liberal groups to curb political action committees. Liberals are unhappy with the way the influence of business-oriented PACs is growing at the expense of liberal/labor candidates who make business their target.

▶ THE FREE MARKET in agriculture long sought by mainstream farm groups proves elusive. The American Farm Bureau Federation, which has been in the forefront of efforts to extricate the agricultural economy from government regulations, now favors a program of subsidies to encourage farm exports. The federation, noting importance of overseas markets to the domestic farm economy, says the subsidies are needed to enable American farmers to compete with subsidized farm exports from the European Economic Community. Federation President Robert B. Delano argues, "It will take at least two years of sensible farm program decisions before we can get back to a market agriculture."

▶ WHAT HAPPENS if failure of major "offshore" bank starts string of bank failures? Economist Allan Meltzer says officials of major trading nations should give some thought to that possibility. As it is now, he points out, there is no clear understanding about who would function as lender of last resort to prevent one failure from spreading to banks that are otherwise solvent.

▶ BANK SECRECY LAWS of Caribbean area are next target of U.S. officials anxious to prevent use of secret accounts by American criminals. Recent agreement negotiated with Swiss permits release of some information to Securities and Exchange Commission in cases where secret accounts may be shield for illegal insider stock trading.

▶ BEHIND RECENT, largely unsuccessful attempt in Congress to limit rising cost of federal retirement benefits: Median benefit from private pensions in 1979 was $2,199; from state or local pensions, $3,171; from federal military pensions, $6,496; and from federal civilian pensions, $6,728. "During 1979 federal retirement programs paid more in benefits than all private pension programs combined," says Employee Benefit Research Institute, yet "active and retired federal pension participants make up less than 5 percent of the total United States population."

▶ REMEMBER COMPARABILITY? It was advanced in late 1970s as extension of the doctrine of equal pay for equal work. It called for equal pay for work of comparable value and was described as one of major issues for business in 1980s. Women's groups and labor unions were chief advocates of the idea. Major stumbling block was and is development of mechanism for equating value of one job with that of entirely different type of job. The idea is still favored by organizations that backed it originally, but it has not become the hot issue envisioned a year or two ago.

▶ AN EFFORT TO STREAMLINE the Joint Chiefs of Staff could be backfiring. When Gen. David Jones retired in June as chairman of the Joint Chiefs, he proposed a reorganization plan under which future chairmen would have more authority and individual members, who head their respective services, would have less. But as passed by the House, a JCS reorganization bill would create post of deputy chairman, enable individual service chiefs to submit own views to Defense Secretary and President, and establish board of retired officers who would recommend strategy and tactics to President and Defense Secretary as well as to the Joint Chiefs. Far cry from Jones' recommendations.

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The AFL-CIO Replies

Your July article "The Sorry State of the Unions," analyzing the current health of the labor movement, contains errors and oversights that seriously mislead your readers.

You quote figures pertaining to National Labor Relations Board representation elections without pointing out that at least half of all union organizing takes place without board-supervised elections.

You quote an ABC-Washington Post poll and confuse results from the general public with those from union members. Some results you might have quoted:

- 79 percent of the union members polled rated the accomplishments of their unions as good or excellent.
- 65 percent of the general public polled said they approved of labor unions, a marked increase in the last few years.
- By 57 to 32, the poll respondents said they were more sympathetic to labor than to business.

MURRAY SEEGER
Director
Department of Information
AFL-CIO
Washington, D.C.

Don't forget Hawaii

Once again our beautiful state of Hawaii has been forgotten.

The caption over a photograph in the article "Exploring the Underwater World" [August] states that "Pennekamp State Park in the Florida Keys is America's only underwater park—and a diver's paradise." Hanauma Bay in Honolulu is not only a lovely bay for swimming but also an underwater park. Because most of it is protected by a reef, it is ideal for the beginning snorkler and the experienced diver.

DANA MOTT
Vice President
United Installation Corporation
Honolulu, Hawaii

Founding Fathers' tax plan

Your article on tax reform ["The Flat-Rate Tax: What's Ahead," August] was fascinating. But in all the discussion on the subject no one mentioned the intent of the Founding Fathers to raise necessary moneys by taxing consumption rather than productivity.

Many in Congress have apparently overlooked this simple rule: If you tax production according to income, you limit production, reduce jobs and, by scarcity of product, cause inflation. On the other hand, if you tax consumption, then the taxes collected are based on increased production, more jobs and more competition in the marketplace. Not only that, but a tax at the point of consumption encourages high quality goods (imports or domestic) and those wonderful things Ben Franklin espoused: thrift and savings.

FRANK GOERG
Sedona, Ariz.

Are bankers good judges?

Re: "SBA: Confronting Its Own Problems" [August].

One indictment of our nation's banks shines through brightly. Although banking is supposedly a high risk business, bankers take far fewer risks than most of us.

Sixty-two of every 100 customers who were turned down by the banks and then went to the Small Business Administration for a direct loan prove to be good risks. The ones who are not turned down by the bank must be virtually no risk. When you consider that 62 percent of those sent to SBA were judged incorrectly by a bank, it seems to contradict NATION'S BUSINESS' conclusion that bankers make better credit judgments than the SBA.

ARCH SHROYER
President
Applied Energy Systems
Bentonville, Ark.

First find the tax evaders

Re: "Dealing With Tax Evaders" [August].

As a certified public accountant I am familiar with the problems of tax collection and tax evasion. But the IRS is only wasting time and money by concentrating on getting a few more dollars out of taxpayers who are already reporting their income instead of find-

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ing those who are not reporting taxable income at all.

Taxpayers get so tired of the IRS' fighting them for a few more dollars that they take every deduction they can, whether it is legitimate, questionable or downright nondeductible.

The IRS is ignoring tax evaders because it just does not know how to deal with the problem. It does not know how to audit a taxpayer's real income and isn't trained to find unreported income. Of course, it asks the question in a tax audit, but that's as far as it goes.

Here is a simple suggestion: The IRS should fire half of its agents and retrain the other half.

If the IRS keeps pushing penalties for noncompliance down the throats of those who are making a reasonable effort to comply, the tax gap will only continue to widen. JAMES BRYANT
East Point, Ga.

Congress' dream car?

You mentioned in your August issue ["The Car That's Worth a Million," Outlook] a bill before Congress that would reward the developer of an automobile with high fuel economy that could carry four people and have a total load capacity of 850 pounds. These criteria show how absurd it is to allow the federal government to determine our transportation needs.

Several months ago, as I was walking over an interstate highway bridge, I did notice *one* automobile with four people in it—but that is a sight not seen very often. DANIEL BARIGHT
Lebanon, Mo.

Mass transit is healthy

"More Commuters Forsake Mass Transit" [Outlook, August] perpetuates a misconception that is highly disturbing to the transit industry and the riders and communities it serves.

Recently published census figures that indicate a decline in the percentage of workers commuting by transit from 1970 to 1980 are strongly contradicted by actual ridership and service data from the transit industry.

Between 1970 and 1980 overall transit ridership increased 12.2 percent nationwide, from 7.3 billion to 8.2 billion trips. During this same period, vehicle miles of service increased 11.2 percent.

In most urban areas, work trips continue to represent the largest single use of public transit. It is not uncommon for work trips to make up 40 to 50 percent of transit use. These facts, compiled from individual transit system data nationwide, contradict the small sample-based estimates provided in the provisional census statistics.

A closer look at individual cities is equally revealing. Despite overall ridership declines in several Northeast and Midwest cities, total transit ridership in 17 of the largest U.S. cities increased nearly 30 percent from 1970 to 1980.

JACK R. GILSTRAP
Executive Vice President
American Public Transit Association
Washington, D.C.

On the ball

Re: "The Golden Bear's Golden Touch" [September].

The photo of Jack Nicklaus looking down the fairway after finishing a left-handed swing would not please him. Jack is right-handed, as everyone who follows golf knows. Your layout artist apparently is not a golfing addict. The picture was printed backwards.

R.W. ANDEREGG
Moultrie, Ga.

Editor's note: Reader Anderegg is correct.

This was certainly an impressive article, but I found it hard to believe that Jack Nicklaus' two sons were going to college on athletic scholarships.

Their individual abilities notwithstanding, it is difficult to appreciate any state school helping to fund education for the children of parents who can easily afford to do so themselves.

GEORGE C. FREDERICK
George Frederick Insurance Agency
Beaver Dam, Wis.

European patent costs

Re: "Business Booms at European Patent Office" [Outlook, September].

The maximum figure for obtaining a European patent is a quantum step above the $3,000 you mention. It is more like $15,000.

Disregarding the domestic attorney's fees, it costs about $2,850 (at prevailing exchange rates) just to get the application on file in the European Patent Office. Next there's a fee to have the application examined. This is another $1,000, approximately.

With examination there ensues the customary prosecution, involving correspondence between the European examiner, the European patent attorney and the domestic patent attorney. Professional fees involved here, over the life of the prosecution, could total $1,500 easily.

If the applicant is successful, his European patent will be granted. Grant fees: another $400. And when the patent is granted, it must be translated if it is to be asserted in the relevant countries. So there are more costs.

You may cause credibility gaps between patent attorneys and agents and their clients. BERNARD J. MURPHY
Mountain Lakes, N.J.

Underneath the Liberal Label

THIS IS NOT THE MOST profound thought ever advanced in the name of political philosophy, but I pass it along for what it may be worth. The big difference between liberalism and conservatism, as those terms are understood in contemporary politics, lies in the degree to which one side or the other would invoke the compulsory powers of the state.

That thought occurred to me the other day as I was reading the text of an opinion by Judge Arlin M. Adams, of the U.S. Court of Appeals for the Third Circuit, in a case involving student fees at Rutgers University in New Jersey. Bells rang. Lights turned on. By golly, I said, this is what the philosophical war is all about.

These were the facts: Back in 1972, or thereabouts, Ralph Nader came up with the idea of organizing little liberal outfits on college campuses. They would be known as Public Interest Research Groups, or PIRGs, and they would provide energetic young leadership in such areas as consumerism, environmentalism, women's rights and the like.

At the Camden campus of Rutgers, a group of like-minded students formed a PIRG, petitioned for university recognition and met the university's requirement that its application for funding be approved by at least "25 percent of the student body plus one." Then came the sticky point. The funding fee for the Camden PIRG was made mandatory. As students enrolled for the fall semester, they were handed a bill for various fees and charges, and among those itemized fees was $2.50 for the PIRG. There was a refund provision: If an objecting student really wanted to make something out of it, he could apply for a refund, but as Judge Adams noted, the few refunds that were sought were not paid until the start of the second semester, when the mandatory fee had to be paid all over again.

In 1979, three fed-up students brought suit. They argued that it violates the Fourteenth Amendment, not to mention the First Amendment, for the state of New Jersey—Rutgers is a state school—to compel them to pay even one penny for the advocacy of causes they oppose. The university responded that the PIRG contributed to the total educational experience on the Camden campus and that besides, if the plaintiffs really tried, they could get their money back. A district court entered a summary judgment against the students, but the Third Circuit reversed and sent the matter back for trial on its merits.

In itself the Rutgers case hardly matters. The three complaining students have graduated, and the PIRG lost its accreditation in a 1981 student referendum at Camden. But PIRGs are still doing a brisk business at colleges and universities in 25 states. The sums of money are substantial. Because each college chapter operates autonomously, with no national office, I have no way of knowing how much revenue the PIRGs generate for liberal causes, but at their peak the PIRGs on eight Rutgers campuses alone were producing $100,000 a year.

The voluntary way is not the way the liberal mind works.

The point is that the young liberal activists at Rutgers turned instinctively, intuitively, to the powers of the state. Judge Adams observed in a footnote that the court saw no convincing reason why the PIRG could not obtain its financial support through purely voluntary contributions. But if we look around, we will see that time after time the voluntary way is not the way the liberal mind works. Compulsion is seen as a natural and desirable way of life.

We find examples everywhere. If the people do not want to pay the price for automobile airbags, the idea is to make them pay anyhow. It is for their own good. At the Federal Trade Commission we will compel funeral directors, furniture manufacturers and used car dealers to follow busybody rules. Across a spectrum all too familiar to business the shadow of compulsion falls.

OF COURSE, MANY COMPULSIONS of the state are necessary. None of us wants to drive on streets without stop signs, for example. These things are matters of degree. This, too, should be said. Many persons who call themselves "conservative" have a way of invoking the compulsory powers of the state when it suits their own notions. The conservative cause is poorly served, to cite but one example, by efforts to require prayer in public schools.

My own thought, and this is not a novel thought either, is that in a free society we ought to maximize voluntary efforts and minimize the fiats of the state. Let us vigorously defend the right of Nader's young disciples to whoop it up for their causes, but let us defend this proposition also: They have no right to whoop it up with other students' money. □

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IRS Grudgingly Whacks at Regulations

Something is cooking at the Internal Revenue Service that just might help small firms that are mired in paper work. The IRS is trying to slice through red tape.

Rebuffed by Congress in its attempt to gain an exemption from the Paperwork Reduction Act, the Internal Revenue Service is pushing ahead with a review of its regulations—all 10,000 pages of them.

The act, which took effect last year, is designed to ease the burden of duplicative or otherwise unnecessary forms and regulations on small business. It requires federal agencies to submit all of their reporting and record-keeping requests to the Office of Management and Budget for approval. The IRS, which accounts for almost 50 percent of federal paper work requirements, has claimed that the OMB lacks the expertise to review highly technical tax regulations.

"We will review all our regs and forms, starting with 31 major ones, with an eye toward what we can cut," says Leon Levine, spokesman for the IRS paper work reduction coordination office.

Among the forms scheduled for an early, close review are the 1040 and 1040A, related schedules that account for about 20 percent of federal paper work requirements and the quarterly employment tax form that most businesses must file. Levine pledges that employes who work with forms and regs will routinely consider ways to cut the paper work burden. "Things get done best when they become part of your daily work," he says.

Robert Coakley, an aide to Sen. Lawton Chiles (D-Fla.), the author of the Paperwork Reduction Act, plans to closely monitor IRS progress at cutting paper work. "The record shows the IRS needs prodding," he says.

Financing Prospects Are Brightening

"Small business has been rediscovered" by financial institutions, and as a result the long-term prospects for smaller firms are bright.

Irving Leveson, director of economic studies at the Hudson Institute and author of a report analyzing the implications of the rapid evolution of the financial services industry on small business, predicates his assessment on some reduction in government borrowing and greater federal encouragement of saving.

With improvement on these fronts, the economist says, "the private market is ready to do the job."

Among the favorable signs, Leveson says, are special units set up at large banks and accounting firms to serve small business, the growing number of venture capital firms looking for promising startups and new interest of some pension funds in small business investments.

"Financial institutions were preoccupied with the cost of processing loans to small business," he says. "Now they are impressed by small firms' growth opportunities. They want to develop relationships with growing firms—and maybe take the opportunity to get some equity participation."

Fewer Bureaucrats On Business Backs

Federal regulatory agencies will be watching small business a little less closely.

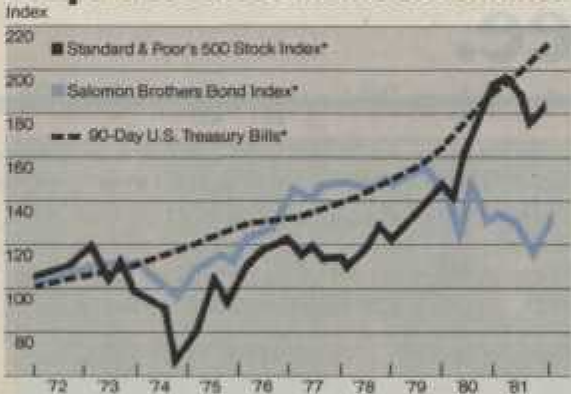
Spending for regulatory programs will be down by one sixth in fiscal 1983 compared with fiscal 1981, says Kenneth Chilton, associate director of the Center for the Study of American Business at Washington University, St. Louis. The number of federal employes directly involved in regulating at 56 agencies is down, too—from 87,000 to 76,500, he says.

The Occupational Safety and Health Administration is conserving its resources by planning 11 percent fewer workplace inspections than two years ago and has already exempted firms with fewer than 10 employes from inspections. The Securities and Exchange Commission, with 8 percent fewer employes, is exempting small firms from some periodic financial statements.

Chilton adds that the Environmental Protection Agency has undergone significant budget and staff cuts but that it doesn't necessarily mean relief for small firms. State agencies are doing more regulating, and "they can be even more stringent than the EPA," Chilton notes.

Treasury Bills Outperform Stocks

Comparative Investment Performance



*Including interest on dividends
Source: Peat, Marwick, Mitchell & Co.

CHART: DICK PARKS

Where can your pension fund get the best return on its money in these turbulent times? Over the last 10 years, it would have been hard to beat the 90-day U.S. Treasury bill, according to an analysis by Peat, Marwick, Mitchell & Company. The accounting firm's survey includes the performance of 514 U.S. and 53 Canadian diversified-equity, special-situation and fixed-income portfolios managed by banks, insurance and trust companies, and independent investment advisers.

If on Jan. 1, 1972, you had invested $100 in short-term federal securities, you would be ahead of someone who had invested $100 in stocks or long-term bonds. The accompanying graph shows the total returns for the three investments, including the effects of price changes and income.

On a 10-year annualized return basis, 90-day Treasury bills earned 8.1 percent, compared with 6.5 percent for Standard & Poor's 500 Stock Price Index and 3 percent for the long-term bonds on the Salomon Brothers High Grade Bond Index.

In 1981 alone, Peat, Marwick Partner William A. Dreher points out, Treasury bill returns averaged 15.3 percent, representing a real return of 6.4 percent above the consumer price index. This level of risk-free return "is almost without historical precedent," he says.

"One message seems clear," the study concludes. "The range of possible scenarios for the future, coupled with existing interest rates on intermediate- to long-maturity bonds, represent the most persuasive case for a positive view of fixed-income securities in many, many years."

High Cost of Equity Spurs Need for Return

Managers in the 1980s should strive for a return on equity averaging 35 percent higher than the level of the last 20 years. That's the conclusion of an economic study by Data Resources, Inc., Lexington, Mass.

"The combination of high rates of inflation, a high real interest rate and the rise in the stock market risk premium has raised the cost of equity substantially over historic levels," the firm's analysts note. "At 21.2 percent in 1981, the cost of equity was more than half again as high as its average in the 1970s and nearly twice as high as in the 1960s. Many firms have not achieved returns at these levels and are selling at low stock market values."

DRI recommends minimum return targets of 18.6 percent for the next five years and 16.5 percent for the subsequent five.

Longer Contracts Will Aid Industry

Defense Secretary Caspar Weinberger proposes that the Pentagon adopt multiyear contracting for 12 new weapons and other military hardware systems in fiscal '83.

Taxpayers, industry and the military stand to gain. Projected savings over the life of the programs amount to some $1.3 billion. Industry will be able to make long-range plans. And the service branches will be able to buy more bang for the buck.

"We are determined to demonstrate that we can manage our large, complex and critically needed defense establishment in a businesslike manner," says Weinberger.

Among the multiyear candidates are two major weapons, a self-propelled rocket launcher for use against enemy field artillery and a three-engine, heavy-lift helicopter for the Navy and the Marines.

Many business people say multiyear procurement could make a great contribution to reviving the sagging defense industrial base.

Reason: Multiyear contracting removes much of the stop-and-go, uncertain nature that has characterized defense business in the past. Second- and third-tier suppliers will be less inclined to leave it for the relative security of nondefense business.

Until recently, contractors who got the go signal one year—and then made the necessary investments in tooling and the like—frequently had the rug pulled out from under them when Congress reversed itself the following year.

Top Reagan administration officials are committed to expanding multiyear contracting.

PHOTO: RICK BLOOM

Defense Secretary Caspar Weinberger is shooting for businesslike procurement.

Pay Policies For Weekend Warriors

Should companies pay employes who are members of the Reserves or National Guard while they are away at training camp?

Prentice-Hall canvassed 168 businesses nationwide and found that nearly 54 percent pay reservists and Guard members the difference between their salary and the military pay they receive for attending summer training leave. About one tenth pay the employes full salary. Most place a two-week limit on compensation. And most have no policy for paying members of the National Guard for emergency duty.

"We neither encourage nor discourage compensation," says Dennis Shaw, principal director to the deputy assistant secretary of Defense for reserve affairs. "That's asking too much. Just allowing employes the time off is a major contribution to a strong reserve force."

TRANSPORTATION

New Drive Against Drunk Drivers

PHOTO: LES MOORE—UNIPHOTO

A federal agency hopes to reduce the huge toll of lives and money taken by drunk driving.

The National Highway Traffic Safety Administration is going after drunk drivers. Raymond Peck, Jr., administrator of NHTSA, says that "by working with 10 target states and communities, we hope to demonstrate successful models that other communities can follow."

NHTSA's new program is aimed at deterring drunk driving by helping local governments set up comprehensive drunk driver control programs. The agency, part of the Department of Transportation, estimates that alcohol is involved in at least half of all traffic fatalities—or about 25,000 last year.

In addition, NHTSA says that alcohol-related crashes injure more than 1.5 million people a year and cost society about $25 billion annually, considering such factors as medical bills and time lost from work.

Peck says police departments will create a public awareness of increased risk of arrest, and extensive public information campaigns will drive home the message of life-threatening danger.

NHTSA will provide technical assistance in these activities to participating states and communities. Some of the communities will assign more police officers to traffic law enforcement.

Persons who get arrested will face loss of license and stiffer fines than they do now, Peck says.

Targets chosen for the program are Massachusetts, Delaware, Florida, Illinois and Utah; Coconino and Yavapai counties in Arizona; Nassau County, N.Y.; and the cities of Baton Rouge, La., Wichita, Kans., and Spokane, Wash.

Focus on States And Seat Belts

State efforts to require drivers and front seat passengers to wear seat belts need a federal boost, according to Charles Pulley, president of the nonprofit American Seat Belt Council. He wants Congress to provide incentives—a 10 percent increase in highway safety funds—to states to induce them to require adult seat belt use.

Though there's no bill on Capitol Hill now boosting the use of the lifesaving belts, Pulley is encouraged by state activity. Michigan's legislature is considering a bill requiring drivers and front seat passengers to buckle up: The fine for a violation would be $10. Sixteen states now require child restraints.

A recent survey by R.H. Bruskin Associates, a market research firm in New Brunswick, N.J., found that 56 percent of respondents favor mandatory seat belt use. However, only 15 percent of the drivers say they wear seat belts all the time.

LABOR

What a Union Thinks the Future Holds

The Communications Workers of America is confident it will be around in the year 2000, but the Washington-based union wants to make sure its members have plenty to celebrate.

To that end it has created a Committee on the Future.

Preliminary findings include a recommendation that the union emphasize protecting employment security through training. "The committee is saying," according to Glenn Watts, union president, "that we should concentrate on getting training and retraining for our members so that no one in CWA will ever be laid off because that person lacked the skills to do a job."

The committee also recommends that the union seek greater control over extra benefits to enable workers to move more easily from employer to employer without loss of pensions, etc.

Not only is work changing as industrial jobs vanish and professional and service jobs take their place, the committee notes, but workers are changing, too.

Today's workers, the committee reports, feel less loyalty to employer or union. It says they change jobs more frequently, and some even change careers several times before retirement.

Says Watts, "Unions must reach these new-breed workers."

Higher Education Levels in Work Force

Workers with four or more years of college make up an increasing proportion of the labor force, while the proportion of those without a high school diploma is going down, says the Bureau of Labor Statistics.

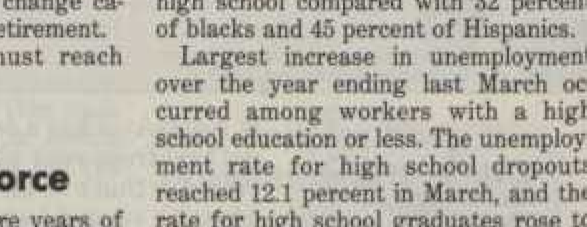
The bureau reports that since 1970 the proportion of college graduates aged 25 to 64 in the labor force has increased to nearly one fourth; meanwhile, the proportion of those with fewer than four years of high school has dropped to about one fifth.

According to the bureau's figures, 24 percent of white workers have completed college, compared with 12 percent of blacks and 10 percent of Hispanics. On the other hand, 17 percent of white workers have completed fewer than four years of high school compared with 32 percent of blacks and 45 percent of Hispanics.

Largest increase in unemployment over the year ending last March occurred among workers with a high school education or less. The unemployment rate for high school dropouts reached 12.1 percent in March, and the rate for high school graduates rose to 8.5 percent.

Unemployment among college graduates aged 25 to 64 also rose substantially—to an even 3 percent.

PHOTO: WILLIAM C. AUTH—UNIPHOTO



College graduates have a much lower unemployment rate than any other education group in the U.S.

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ENERGY

Natural Gas Decontrol Speedup?

The Energy Department wants less federal regulation of interstate pipelines as well as faster decontrol.

The Energy Department will probably soon submit legislation to Congress to decontrol all natural gas and accelerate existing decontrol schedules.

Says J. Hunter Chiles, the department's director of policy, planning and analysis, "The plan is ready to go. We're just waiting for the right signal from the President."

Natural gas pricing is now governed by the Natural Gas Policy Act of 1978. Under this law, prices of new gas will be permitted to increase gradually until 1985, when controls on most domestically produced gas will be lifted. Controls on the remainder will stay in place.

The Energy Department will seek phased decontrol of all categories of natural gas and reduced federal regulation of the interstate transmission of gas. It will also propose that portions of the Fuel Use Act be repealed. The act requires utilities now using gas to switch to another fuel after 1990.

Congressional opponents of reopening the Natural Gas Policy Act are determined. "Any push in 1983 for decontrol will result in the bloodiest battle this administration has seen," says Rep. Philip Sharp (D-Ind.), a member of the House Energy and Commerce Committee.

Besides increasing gas prices, many energy experts say, accelerated decontrol is apt to result in greater conservation, increased development of gas resources and greater use of other energy forms, especially coal.

Many Guaranty Trust Company economists believe that accelerated decontrol could also boost federal revenues—and reduce budget deficits—by as much as $10 billion annually.

Electric Utilities Decry Legislation

Investor-owned electric utilities are disturbed by a threat to their recovery of costs of power generation projects that are not yet in service.

Legislation working its way through Congress would curb the Federal Energy Regulatory Commission's authority to permit utility companies to include the costs of construction work in progress in rates charged for wholesale power. The FERC, which has jurisdiction over wholesale power transactions, is considering such a change in its rulemaking policy.

The legislation, cosponsored by at least 66 congressmen, was introduced by Rep. Tom Harkin (D-Iowa).

Representatives of investor-owned companies say that being able to earn returns on plants still under construction is basic to their industry's ability to afford to plan and build new generating capacity, especially at current interest rates.

INTERNATIONAL

Foreign-Owned Firms Warned of EEO Laws

As a result of recent court decisions, foreign companies with American subsidiaries will have to be more aware of U.S. laws on equal employment.

Paul J. Ostling, partner and associate general counsel at Arthur Young & Company, says managers of foreign parent firms and their counterparts in U.S. subsidiaries should become thoroughly versed in the applicable laws.

"They cover the full range of a company's employment practices, including hiring, compensation, benefits, promotion and termination decisions," says Ostling, a specialist on the subject.

He notes recent decisions by the U.S. Supreme Court and U.S. circuit courts of appeals that Japanese-owned firms operating in this country come under equal employment laws. Those decisions, says Ostling, can be expected to affect all foreign-based companies with U.S. operations.

He also points out that several U.S. district courts have held that the employment laws take precedence over exemptions in trade treaties. The Supreme Court has ruled that subsidiaries wholly owned by foreign companies are not entitled to those exemptions.

As a result, Ostling explains, the subsidiaries are effectively blocked from filling all executive and technical positions solely on the basis of citizenship or ancestral heritage of the home country of the subsidiary.

Birthrate Slowdown Worries Kremlin

Soviet leaders are increasingly worrying about a sharp drop in the Soviet Union's population growth rate, the Population Reference Bureau reports.

The Kremlin, says PRB, fears "there won't be enough new workers during the 1980s to boost the country's stalling economy or sufficient draftees to maintain the current 4.8 million level of its armed forces."

Soviet authorities are also worried, the report says, about changes in the complexion of the work force and the army resulting from a fertility rate that is so low among the dominant ethnic Russians "that they will cease to be the national majority before the end of the century, while fertility continues high among Central Asian Muslim majorities."

The PRB, a private, nonprofit organization, says the growth of the Soviet population, which now stands at 270 million, dropped from 1.8 percent a year in the 1950s to 0.8 percent in 1980, "due mostly to falling fertility among Slavic groups made up mainly of Russians."

Authorities have taken steps to stimulate population growth through increased birth grants, payment of partial salaries to women during maternity leave and, for the first time, inclusion of single women in the grant program.

Soviet leaders want to see more Slavic youngsters like these born in the future.

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Fed Policy: Recession Cause or Cure?

Three years ago the Federal Reserve Board adopted a tight money plan to fight inflation. There's controversy over the effects of that plan.

By Barry Crickmer

PHOTO DENNIS BRACK—BLACK STAR

Is this man still pursuing a tight money policy? Experts are sharply divided. And the answer of Fed Chairman Paul A. Volcker himself is ambiguous.

THE INFLATION outlook was grim in early fall of 1979. Prices were moving up at a 13 percent annual rate. Interest rates kept moving up also, but borrowing stayed high against the anticipation that rates would be still higher later on.

Despite repeated pledges of counteraction from Congress and the White House, inflation appeared to be feeding on itself.

Economists worried that an inflation psychology had taken hold—that many financial decisions were being made on the assumption that inflation would only get worse and that the government was helpless to stem the tide.

But, suddenly, action came from an unexpected quarter. On October 6, a Saturday evening of a long holiday weekend, the chairman of the Federal Reserve Board called a press conference to announce that his agency was, in effect, taking the leadership of the fight against inflation.

Paul A. Volcker, who had been in his job a little over two months, announced specific steps the Fed was taking.

Basically, he said, the board was abandoning its traditional policy of fine-tuning interest rates and would henceforth control the money supply, allowing interest rates to reach whatever levels markets set in view of the availability of funds.

The board's actions were widely hailed as the first positive steps to deal with roaring inflation, although there were some dissenting voices.

In clamping down on the money supply, the Fed was certain to drive up interest rates, and there was concern that choking off capital would seriously harm the economy.

The nation has been in the grip of the worst recession since the 1930s in the last three years, and such key industries as housing and automobiles have been battered by the high interest rates resulting from Fed policy. Business failures have increased sharply, and many financial institutions have been in serious trouble.

Recently, however, both interest rates and inflation have plummeted, and the stock market has had record volume. Many economists believe the three developments are the prologue to economic recovery.

But arguments continue over whether the Federal Reserve Board's tight money policy was the cause or cure of the recession.

Business people will debate for a long time the questions of whether Fed policy caused the wild swings in interest rates that took place during the rates' upward trend or whether that policy deserves credit for cooling inflation.

There is a dispute over whether inflation and interest rates could have been brought down through less painful steps than a prolonged recession, and whether interest rates will continue to fall.

The answers to these questions tend to be colored by the philosophical orientation of the expert consulted. Monetarist economists—who emphasize the money supply's importance—say the Fed has done the right thing in the wrong way. Liberal economists say the excesses demonstrate the failure of monetarism. And extreme supply-siders are holding out for something resembling a gold standard as the only guaranteed way to avoid inflation.

ON TWO POINTS, however, there seems to be general agreement. Restricting the growth of the money supply will subdue inflation, if you are willing to pay the price. And for the United States, for now, the worst is probably over.

But what, exactly, did the Fed do to implement its policy? The answer requires, first, an appreciation of how the Fed, which is the closest thing America has to a central bank, controls the money supply.

It has three tools available: It can vary the discount rate, which is the interest rate financial institutions pay for loans from the Fed; it can change the reserve requirement, the assets a bank must hold to back its deposits; or it can buy or sell securities on the open market.

When the Fed buys a security on the

open market, it pays with a check. The check is ultimately deposited in a commercial bank, which sends it back to the Fed, where it is credited to the bank's reserve account. An increase in the bank's reserves gives it the capacity to make more loans, which expands the money supply.

Conversely, when the Fed sells securities, bank reserves are reduced by the amount of the transaction. Result: Banks are less able to grant loans, and they may even need to borrow to bring their reserves up to the required level. When banks begin competing with each other for reserves, the interest rate they charge one another for loans—the federal funds rate—rises. This rate tends to influence the level of all other interest rates.

Before the era of high inflation, the conditions that encourage expansion of the money supply also reduced interest rates. The Fed tried to keep rates low to stimulate economic activity and—perhaps of more immediate concern—to help the Treasury finance the national debt.

But big federal deficits required large increases in the money supply. As the money supply expanded faster than the production of goods and services, inflation developed.

FEAR OF CONTINUING inflation eventually made lenders unwilling to lend for long periods, except at very high interest rates. Lofty rates for long-term bonds forced many borrowers to refinance in the short-term market, putting upward pressure on those rates.

Thus, by Oct. 6, 1979, the Fed was convinced that further inflation of the money supply would raise rates, not lower them. Only two options remained: Subdue inflation by braking the growth of the money supply and let interest rates go off on their own, or apply some form of controls. Credit controls were tried in early 1980 but failed.

The graph on page 30 shows how interest rates fluctuated rapidly after the Fed changed its aim. But were the fluctuations a result of the new Fed policy, or a blow-out of accumulated pressures? And if the Fed's change caused the fluctuations, were they a transitory phenomenon or a permanent handmaiden of the new policy?


PHOTO: JOHN NEUBAUER

The Board of Governors of the Federal Reserve System meets in a setting appropriate to the world's most important central bank.

The Fed is sometimes portrayed as shocked at the violence of the fluctuations. However, a reading of the Federal Open Market Committee's *Record of Policy Actions* indicates that much of the trouble was anticipated. (The Open Market Committee consists of the seven members of the Fed's Board of Governors and the presidents of five of the 12 Federal Reserve Banks. It is the group that sets open market policy.) The record of the Oct. 6, 1979, meeting acknowledges a risk of "larger increases in interest rates in the immediate future than would otherwise occur."

Did the recession have to be as bad as it was? Some economists say much of the trouble cannot be blamed on the Fed's policy change.

"During the first five or six months of the Fed's new procedure, interest rate changes were dominated by budget considerations plus the carryover of a prior lack of monetary restraint," says Robert Weintraub, a senior economist on the Republican staff of the congressional Joint Economic Committee.

Then in March, 1980, President Carter invoked the Credit Control Act of 1969, Weintraub points out. Resulting restraints on credit card debt and loans by non-Federal Reserve System banks lasted until July, and "the effect lingered on until the end of the year," he says. So the Fed really wasn't free to carry out its monetarist experiment until 1981. The Treasury bill rate in December, 1980, was 15.7 percent. "And where is it today?" Weintraub asks. "It's about half that." He predicts rates will fluctuate around a trend line that slopes downward. When lower money growth has subdued inflation, Weintraub says, the Treasury bill rate will fluctuate in the neighborhood of 2 to 6 percent.

However, Weintraub has his doubts about how well the Fed executed its new policy. "I think things would be better if we had had a smoother decline in money growth," he says.

Many monetarists express the same sentiment in stronger language. "The major policy prescription implied by monetarist theories—a moderate, steady and predictable rate of money growth—has not been approached, let alone achieved in the U.S.," says the Reagan administration's leading monetarist, Beryl W. Sprinkel, under secretary of the Treasury for monetary affairs. "We recommended—and assumed in our own economic projections—that the rate of money growth be gradually decelerated to a noninflationary pace." Instead, growth "was sharply and abruptly slowed in 1981" and "continues to be highly erratic," he complains.

Sprinkel says volatile money growth added two or three percentage points to interest rates during the past year.

MONETARIST Allan H. Meltzer concurs. He is a professor at Carnegie-Mellon University, Pittsburgh, and cochairman of the Shadow Open Market Committee, a group of monetarist economists who meet to analyze Fed actions and make recommendations for alternative policies.

"The change has been a failure," Meltzer says. "It may, in some general sense, be better than what went before in that inflation has been brought

down. But the cost has been substantially higher than it needed to be, and the administration of the change has been poor." Meltzer, too, says the Fed is not practicing monetarism. He says it is doing what it did in the 1950s, "trying to control free reserves" (the difference between excess reserves and discount window borrowings).

Edward Yardeni, chief economist of E. F. Hutton & Company, New York, thinks the monetarists are copping out. "There's always going to be a difference between theory and practice," he says. "We came as close to practicing monetarism as was politically possible. Monetarism has brought us to the brink of a depression, and now the Fed is being forced to ease up."

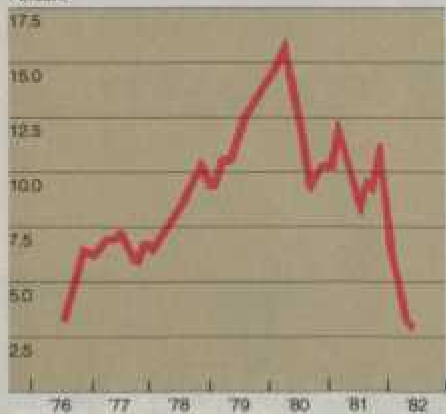
Yardeni served as a consultant to Senate Minority Leader Robert C. Byrd (D-W.Va.), one of the sponsors of a bill that would require the Fed to concentrate on controlling interest rates. A similar measure has been introduced by House Democrats.

Despite criticism from economists of all persuasions, the Fed must be doing something right. A recent poll of the membership of the National Association of Business Economists shows that 74 percent consider current monetary policy "about right." Asked whether this response could be interpreted as an endorsement of the Fed's October, 1979, policy change, NABE President Don R. Conlan says, "Definitely."

BUT WHERE IS the Fed heading now? Some economists believe it has relaxed its grip on the money supply. Yardeni is one of them. He believes that the Fed has been "pumping reserves into the system rather rapidly, trying to avert a crisis." As evidence he cites the drop in interest rates.

Volcker himself hinted at some easing in his July report to Congress. He reaffirmed the Open Market Committee's initial 1982 growth-range target for M1—currency and demand deposits, the basic measure of the money supply—of 2.5 percent to 5.5 percent. But then he hedged. He said that "in light of developments during the first half, growth around the top of those ranges would be fully acceptable [and] growth somewhat above the targeted ranges would be tolerated for a time in circumstances . . . leading to stronger than anticipated demands for money."

Change In Consumer Price Index Over Previous Six Months*



*Seasonally adjusted annual rate
Source: Bureau of Labor Statistics

Volcker's reasoning is that velocity—the rate at which money changes hands—declined during the recession. A decline in velocity has the effect of a shrinkage of the money supply. Therefore, if velocity remains lower than normal, a higher growth rate for money could be tolerated temporarily without aggravating inflation. On the other hand, if velocity returns to normal, the upper limit of 5.5 percent is once again appropriate.

There undoubtedly is some political motivation, too. Volcker has repeatedly assured Congress that the Fed is sensitive to the problems caused by high interest rates. The Fed is remarkably independent—its members are appointed to 14-year terms, and it is not dependent on the White House and Congress for its operating funds. But some say it reads the election returns.

Meltzer thinks it has been doing too much of that. "There has been a tendency to overestimate the political difficulties and underestimate the economic difficulties," he says.

He has his own prescription for reform. "The major problem in monetary policy today," he says, "is that the Fed has authority without responsibility, and the President—in the case of monetary policy—has responsibility without authority." To cure that problem, he says, the Fed should be required to meet monetary targets. If the money supply fails to meet a target, the chairman would have to submit his resignation and an explanation to the President, who could accept either.

Although the chairman officially is only one of seven Fed governors, strong chairmen like Volcker usually stamp their own views on Fed policy.

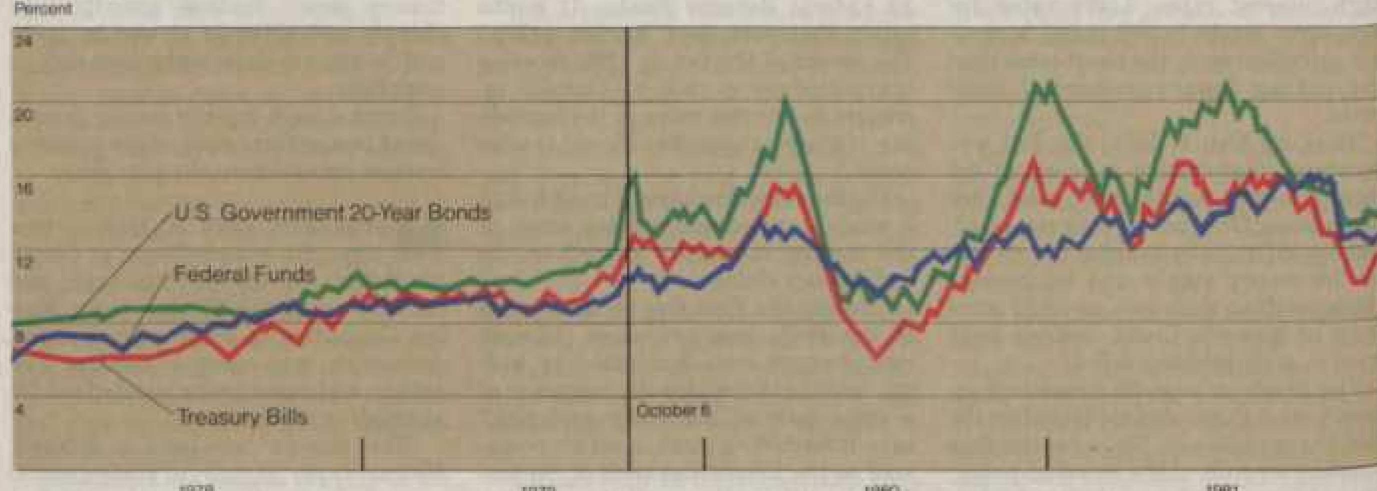
Meltzer would also like to see a change to "contemporaneous reserve accounting"—a change the Fed has already promised—and some other technical operating changes. Other experts also believe the change in reserve accounting procedure would give the Fed better control of the money supply.

At any rate, both the Fed's supporters and critics tend to refer to the problems it may have caused in the past tense. All are heartened by the recent abrupt declines in interest rates.

Paul Volcker, too, seems to think the worst is over. Although he cautions about the dangers of large federal deficits, he sees "strong evidence" that "the inflationary tide has turned in a fundamental way." □

Interest Rates

(Weekly averages: 1978-81)



Source: Federal Reserve Bank of Kansas City

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Central Bank No Stranger To Controversy

THROUGHOUT its history, the United States has found it difficult to live with a central bank and more difficult to live without one.

Today's grumbling about Federal Reserve policy pales in comparison to banking disputes of the past. Jefferson and Hamilton clashed bitterly over the establishment of the First Bank of the United States. Hamilton, first Treasury Secretary, got his bank in 1791. It lasted 20 years.

The Second Bank of the United States was started in 1816, after five years of progressively deteriorating monetary conditions. Badly managed at first, it began to perform well after Nicholas Biddle became its president in 1823. But it was unpopular with President Jackson's Western agrarian supporters, and in 1832 he vetoed a bill to recharter "Biddle's bank." The bank's national charter lapsed in 1836. It converted itself into a Pennsylvania state bank and failed four years later.

From 1836 until the National Banking Act of 1863, there was no national banking system, and at one point more than 8,000 varieties of state bank notes were in circulation.

The act of 1863 authorized the Comptroller of the Currency to charter national banks that could issue uniform bank notes to be guaranteed by the Treasury Department.

Monetary policy again became a hot political issue in the presidential campaign of 1896, which pitted the Democratic nominee, William Jennings "Cross of Gold" Bryan, and Western debtors against Republican William McKinley and Eastern creditors. Creditors favored the generally deflationary effects of the gold standard that the country was on at the time, while debtors wanted unlimited coinage of silver, which would have been inflationary. Bryan lost.

A series of banking panics culminating in the Panic of 1907 called attention to the biggest remaining flaw in the national bank system: There was no lender of last resort to maintain public confidence and prevent runs. A National Monetary Commission studied the problem and recommended a National Reserve Association located in New York. The recommendation became a political football in the election of 1912. Nevertheless, the Federal Reserve Act was passed in 1913, providing for a loose confederation of 12 Federal Reserve Banks. The system's performance deteriorated during the early years of the Depression due to a lack of strong leadership. Restructured through the Banking Acts of 1933 and 1935, it became the Federal Reserve System of today.

NOT EVERYONE thinks we need a central bank. Ironically, whereas throughout U.S. history the opponents of central banks favored inflation, it is now the enemies of inflation who are inclined to oppose them.

Lawrence H. White, a professor of economics at New York University, says, "Were it not for the legislative creation of central banks, primarily to meet the demands of central governments for inflationary finance, free banking would indeed be with us today."

In a book recently published by the Pacific Institute, San Francisco, *Inflation or Deflation? Prospects for Capital Formation, Employment and Economic Recovery*, White makes a case for a system of independent banks that would be self-regulated by a contractual pledge to exchange their notes for specie—gold or silver coin—on demand.

What would stop a bank from issuing notes irresponsibly? Competition, says White. To attract customers, a bank would have to convince them that its notes are reliable and convenient as a medium of exchange. To remain profitable, it would have to maintain that reputation. White says the rivalry among note-issuers would be "similar to the present-day rivalry among issuers of checking accounts." He hypothesizes that a mutual clearing system would evolve out of necessity.

Would that be returning to a system that failed in the United States in the 19th century. No, says White. What prevailed then was not free banking, he says, but "decentralization without freedom." True free banking operated successfully in Scotland from 1716 to 1844, White says.

Allan H. Meltzer, a professor of political economy and public policy at Carnegie-Mellon University, Pittsburgh, concedes that the Scottish free banking system functioned well. But "while there weren't many failures," he says, "there also was very much slower growth than would have occurred if there had been a better monetary system. There were too many risks being borne privately that could have been pooled and eliminated."

Meltzer, like most economists, thinks there needs to be a lender of last resort. "Suppose there were serious runs on the banking system," he says.

"At some point, there has to be somebody who runs the cash-printing machine." □

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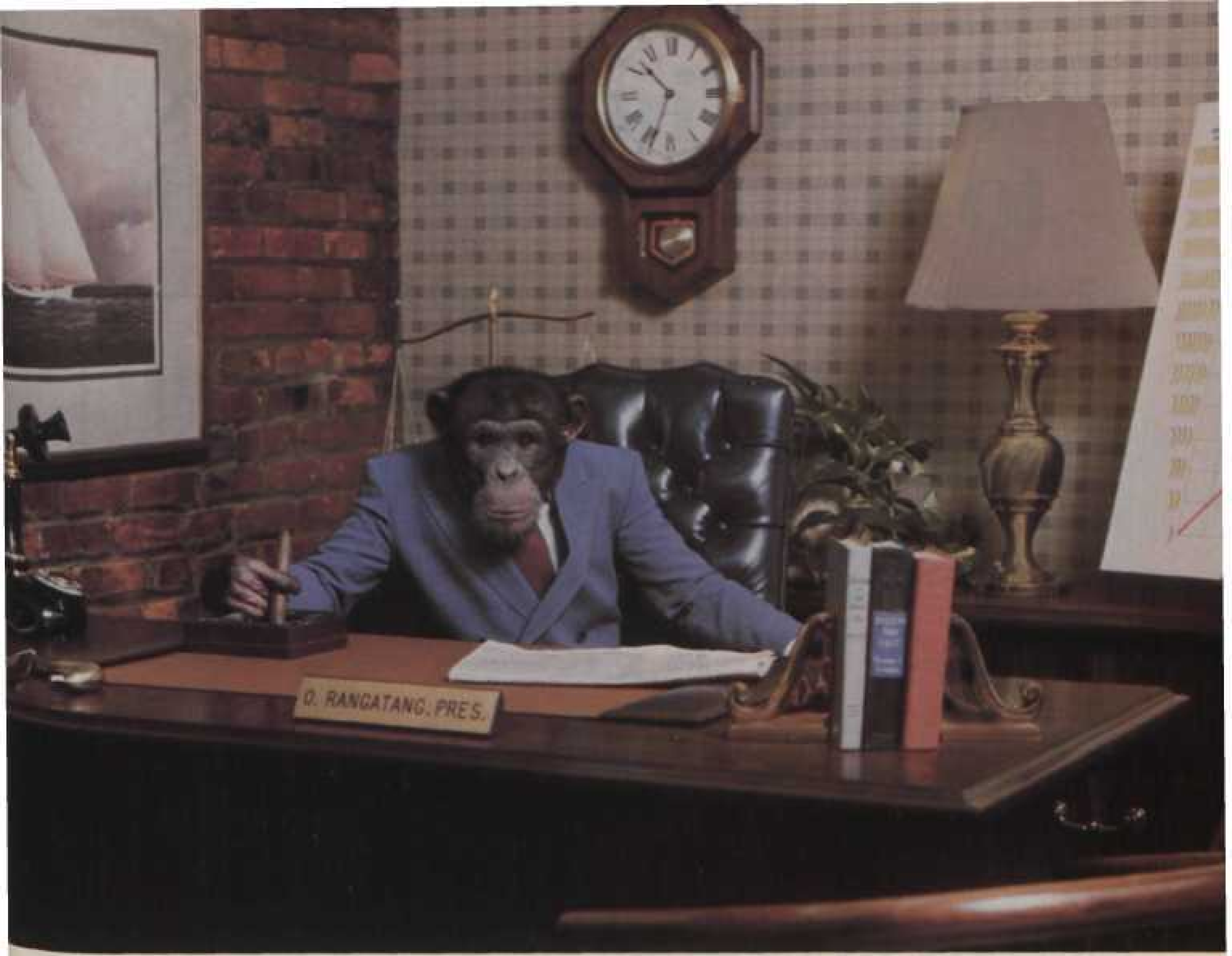

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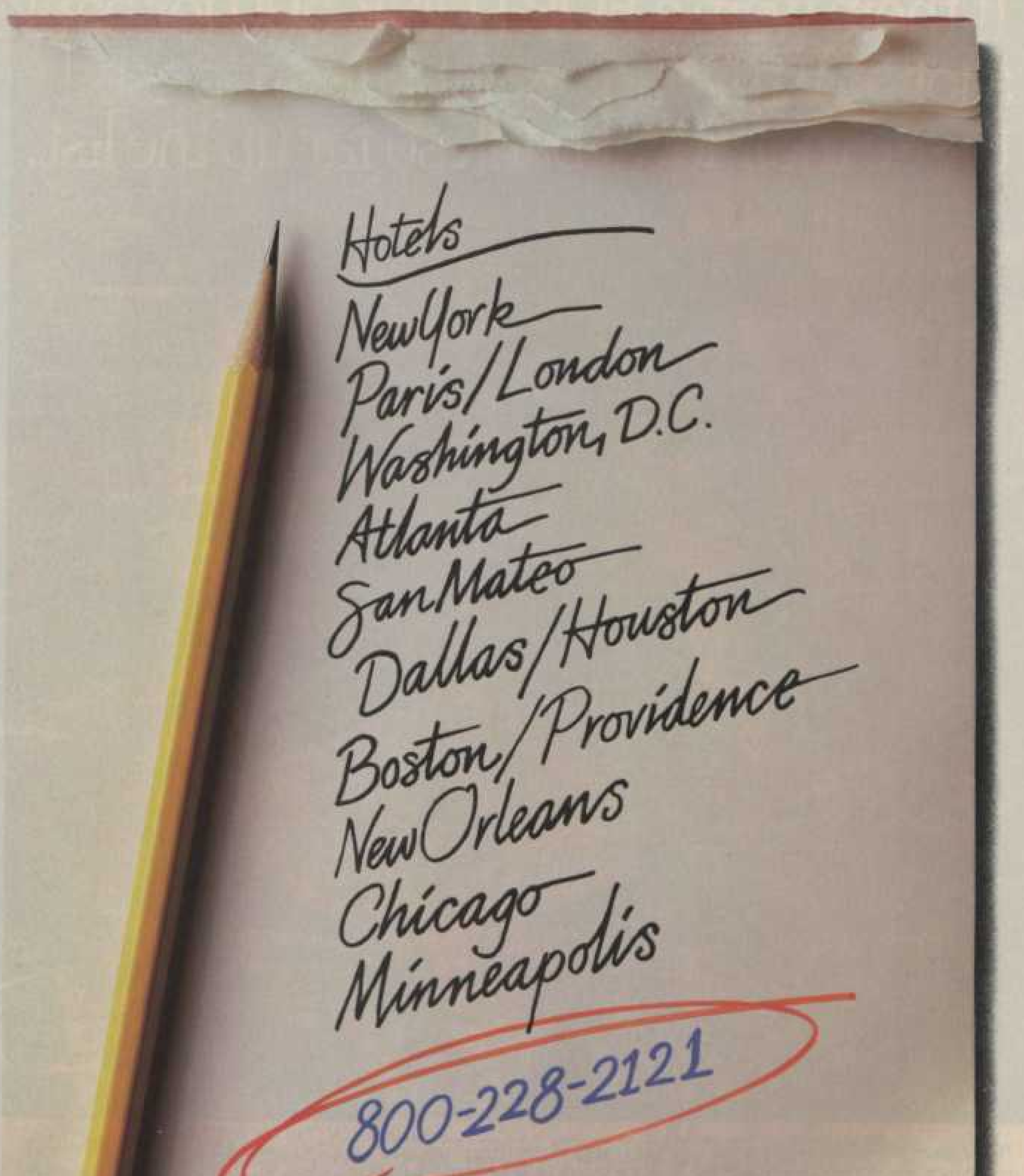
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The Last Word In Business Communication

"THE FIRST business satellite-television system in the world—a system that can reach every community in this country to promote and strengthen our enterprise system."

President Reagan thus describes the American Business Network, which the U.S. Chamber of Commerce launches full-scale this month.

BizNet, as the new network is known, is already on the way to becoming a major force in the way business communicates and affects political and public policy decisions.

Scheduled programing begins this month to initial subscribers across the country. Programs are transmitted from the Chamber's Washington headquarters via the RCA communications satellite, Satcom IV, and received by BizNet subscribers through their own "dish" receivers.

The programing is exclusively business-oriented. It includes news reports, analyses, political projections, international trade information, small business reports, appearances by top government officials discussing priority issues, the status of litigation, information on effective management of state and local chambers of commerce, and reports on legislative activity at the state and local level.

The program "Ask Washington" will enable members of the audience throughout the country to telephone questions directly to top government officials in Washington. Other programs on specialized issues, such as international trade, will also provide opportunities for two-way communication.

(A more detailed report of BizNet programing appears in the box on page 36.)

BizNet facilities will also be available to subscribers and other members of the U.S. Chamber to conduct meetings involving participants at widely separated points.

Such events might feature members of a state's or region's delegation in Congress reporting to the business community in that state or region and answering questions from the audience.

Chamber officials view the network not only as a major innovation in business communications but also as an important addition to the extensive communications program already operated by the business federation.

It is an integral part of the Chamber's efforts on behalf of the business community to make the competitive enterprise system work more effectively.

Special goals include promotion of legislation favorable to a healthy business environment, regulatory relief, fiscal policies that encourage economic growth, international policies that strengthen the U.S. trade position and the preservation of a strong small business sector in the American economy.

An important part of Chamber activity to further those goals is a political action program, directed at Chamber members, aimed at helping to elect candidates who support the free enterprise system.

In addition to focusing on Congress and executive branch agencies, the Chamber has an active program of litigation when that course becomes necessary in disputes with the government or antibusiness groups.

"Communications is the glue that

Key U.S. Chamber figures in the launching of BizNet: Richard L. Lesher, president; Robert Adams, broadcast division director; Carl Grant, group vice president, communications; and managers Douglas Widner, satellite network; Meryl Comer, program development; Daryl Griffin, television operations; Cheri Rusbuldt, marketing.

binds all of these activities together and enables the Chamber to accomplish its mission," says U.S. Chamber President Richard L. Lesher.

BizNet joins what is already an extensive communications program at the business federation. It includes this magazine, a newspaper, a weekly television program, a radio program and reports by Chamber staff specialists.

In 1980 the Chamber began drawing plans for an in-house studio to produce its television program, the highly successful "It's Your Business," and to provide better production facilities for the widely heard radio program "What's the Issue?"

Carl Grant, Chamber group vice president for communications, recalls: "The potential in combining sophisticated, in-house broadcasting capabilities with satellite technology quickly became apparent, and the idea for BizNet emerged."

An effective communications program today must include television, Grant says. He adds that the formation of BizNet also resulted in part from the manner in which the established networks deal with business topics.

He explains:

"It's not that business is being covered unfairly, although that does occur at times. The more important factor is that coverage of business issues is not extensive enough and is sometimes quite superficial. Business people need an opportunity to interact frequently with government officials whose decisions are vital to the health of business enterprises. That's what BizNet is all about."

Grant points out that instead of passively listening to inadequate and sometimes misleading accounts of business news on standard TV stations, BizNet viewers will get full, expert coverage and often will have an opportunity to question individuals appearing on the business network programs.

BizNet programing originates from a $3.5 million broadcast facility that has been added to the Chamber's headquarters, which faces the White House across Lafayette Park.

The system has already undergone extensive testing. A full program schedule was broadcast once a week last month, and the facilities have also been used for live question-and-answer sessions between government officials in Washington and business audiences in other parts of the country.

In one such event, Commerce Secretary Malcolm Baldrige responded from his Washington office to questions from a group in Hartford, Conn. In another, Rep. Jack Kemp (R-N.Y.) did the same for participants in a meeting in California.

THE OPPORTUNITY for interaction—the ability of members of an audience to question speakers via audio hookup—is one of the principal assets of BizNet for business groups, Chamber officials point out.

The BizNet goal by the end of this year calls for signing up 100 subscribers in the nation's 100 largest population centers. "BizNet is developing on schedule," Grant says, noting there are nearly 50 subscribers committed at present. Cheri Rusbuldt, marketing manager of the Chamber's broadcasting group, adds, "By December, we'll have all 100."

Subscribers are state and local chambers of commerce, trade associations and corporations that purchase their own receiving facilities and pay the $5,000 annual subscription fee for the full BizNet programing schedule.

Subscribers can also use selected programs as the focus for their own meetings.

U.S. Chamber activities to be covered regularly by BizNet will include, for example, addresses by high-level government officials.

A local chamber could schedule its own meeting simultaneously with the Washington event and receive the televised program live in its own community. Such a gathering could be a source of revenue to the local chamber. Tickets could be sold for an event at which a special BizNet program is the principal attraction.

BizNet marketing officials say programs suitable for such local events will include Washington breakfast meetings at which top White House and congressional officials address business audiences, lunches featuring

BizNet facilities are among the most advanced in the television industry.

speeches by experts on international affairs and litigation activities, and management and other training seminars.

Depending on the extent to which a local or state chamber or trade association uses BizNet programs, it could more than cover its initial investment and even make a profit, BizNet officials say.

In addition to issue-oriented programs, BizNet will offer educational and self-improvement programing, including how-to workshops.

Robert Adams, director of the Chamber's broadcast division, says: "A basic consideration in writing the BizNet program schedule was the Chamber's diverse membership. We relied on suggestions from Chamber staff and members alike to develop a menu that would meet the needs of everyone."

One segment will be devoted to the interests of small business, which comprises the majority of the U.S. Chamber's membership, now more than 250,000.

At the end of the scheduled broadcast programing, the Chamber's television facilities will be available for lease by subscribers and other Chamber members for their own needs.

The closed-circuit TV system can be used to reach specific communities where BizNet receivers are in place.

For example, the Chemical Manufacturers Association intends to use BizNet facilities as a cost-effective way to communicate with its membership. Plans call for broadcasting programs featuring Washington speakers to CMA gatherings around the country. CMA members at these gatherings will be able to participate in association events that will be televised from Washington over BizNet facilities that will include two-way audio communication.

Robert Roland, president of the association, says that "BizNet is a versatile and effective communications tool whose economics are all the more meaningful in the present austere environment."

BizNet officials see a variety of uses of the network by individual segments of the business community. A trade association could use the entire national network or selected regional portions of it, contacting the association's members to explain a major Washington news development affecting them. A key member of Congress or of the executive branch could be present in the studio to explain details of the action and answer questions from the field.

A company's political action committee might want to introduce a candidate it supports to employes of the company's plants around the country, and it could do so via the BizNet facilities. A Washington-based corporate representative could use the system to have a government official or other expert explain to the home office just what impact proposed legislation would have on the company.

THE SYSTEM is adaptable to many forms of business communications involving from two to thousands of people.

And BizNet has an important advantage that other teleconferencing systems do not have: Its signal is scrambled and can be unscrambled only by a special decoder at the receiving station. Thus the business communications involved will be confidential.

If unscrambled communications are sent via satellite, they can be picked up by anyone with a receiving unit.

Looking ahead, the Chamber's goal is to expand BizNet by 200 subscribers annually over the next three years.

Lesher notes that there are those who say the BizNet plan "is too complicated, too expensive, too ambitious." He discounts the skepticism.

He recalls similar warnings from outsiders about "It's Your Business" when the Chamber launched the TV program, which allows teams of panelists to air both sides of major public issues.

"People told us we couldn't produce a successful weekly public affairs TV series because we lacked the credibility necessary to attract enough viewers and sponsors," Lesher says.

He points out that the program is now carried by 159 television stations. Its audience has grown in just two years to 1.7 million households, about two-thirds the number that watch such venerable public affairs programs as "Meet the Press" and "Face the Nation." Advertising revenues from major corporations enable the program to cover its costs, Lesher adds.

"They were wrong then about 'It's Your Business,' and they are wrong now about BizNet," the Chamber president says.

Others agree that BizNet has a bright future. Presidential counselor Edwin Meese III predicts the new network will "revolutionize the way the business community makes itself heard."

As the new network begins full-scale programing, its planners are also confident that it will revolutionize business communications and the way grassroots America participates in the affairs of its government. □

Information You Can Use

Among the major program offerings on the BizNet schedule:

Washington Watch. Major business and Capitol Hill news.

At Issue. In-depth, behind-the-scenes analysis of key issues.

Economic Update. Insiders' forecasts of economic trends—a must for business planning.

Talking Business. Business from the private-sector perspective.

It's Your Business. A panel of America's leading experts debate.

Breakfast Bunch: Newsmaking guests report to corporate reps.

International Forum. Analysis and discussion with prestigious guest speakers.

Association Insiders. Prominent guest speakers analyze issues with influential association executives.

Small Business Report. The latest on legislation, trends, litigation and regulation.

Ask Washington. Dialogue with key political and government officials.

Stateside. Emerging legislative issues at the state and local level.

Take It to Court. Guest legal experts discuss court decisions.

Chamber to Chamber. Chamber execs share best bets for effective chamber management.

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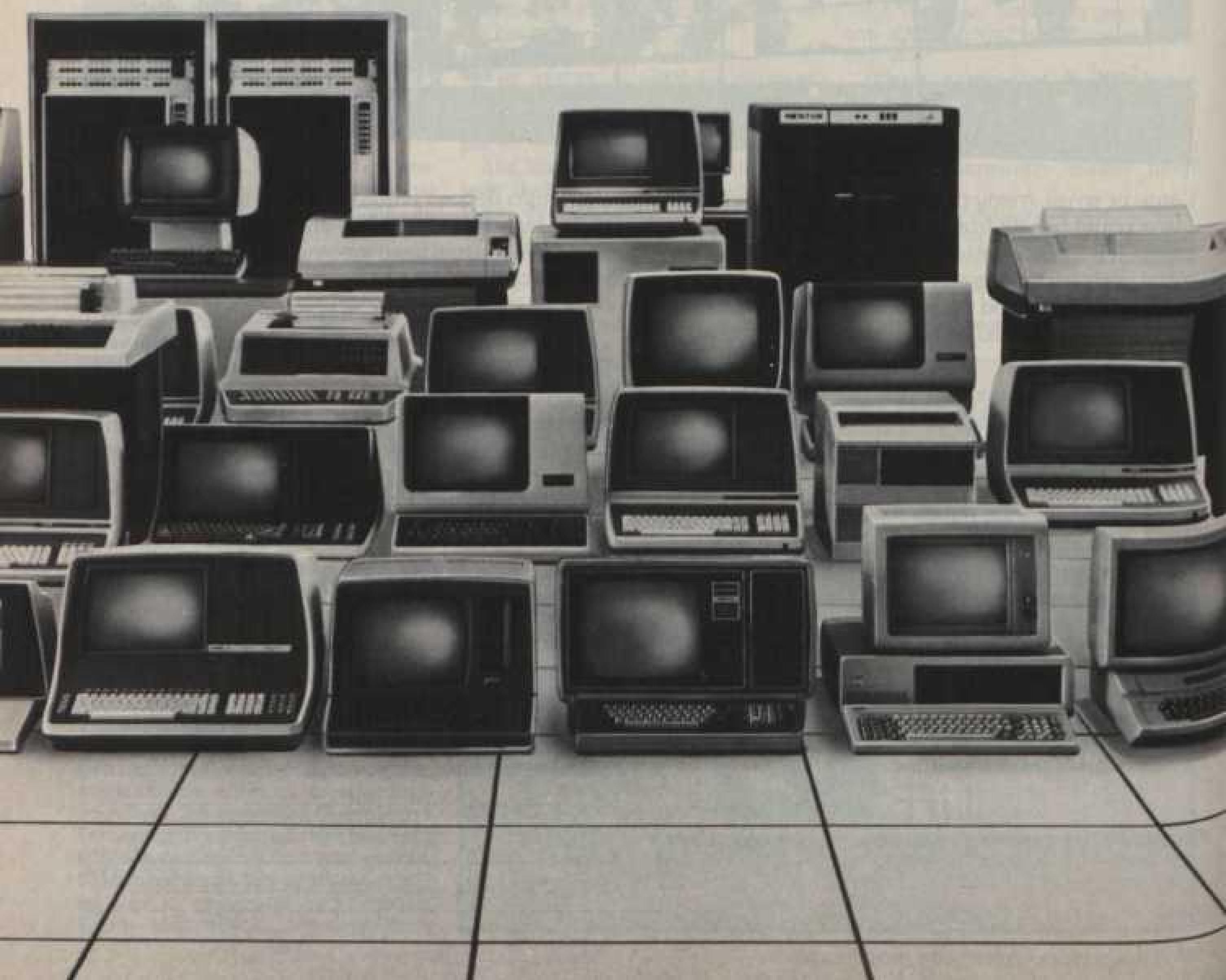

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Campaign '82

Two Bellwether Races

The contestants are very different, but both these elections are tests of support for Ronald Reagan's policies.

By Seth Kantor

At first glance there's nothing similar about them: a U.S. Senate race in the craggy open spaces of Utah and a U.S. House race in the Chicago area's densely populated ninth congressional district.

But both campaigns in America's diverse heartland reflect the forces at work in the off-year congressional elections—elections that analysts view as a midterm test of public support for President Reagan's policies.

More than just local controversies are involved in Utah and in Chicago's ninth district, where past political campaigns have been run on shoestrings. This time big money is being poured into the two races by outside interests that are out to defeat incumbents—freshman conservative Sen. Orrin Hatch (R-Utah) and veteran liberal Rep. Sidney Yates (D-Ill.).

Organized labor and the national Democratic Party machinery are waging one of the nation's hottest election battles against Hatch, while business political action committees and GOP party pros in Washington are conducting a well-financed campaign against Yates.

UTAH

There is a shocker in Utah. Reagan-stalwart Hatch, 48, is in significant political trouble in a state where most voters are Republican and Ronald Reagan retains overwhelming popularity.

Hatch has become a powerful Senate committee chairman in just six years in Washington and is an acknowledged national leader of the New Right—the force that helped bring Reaganomics into power two years ago. Endorsed by the political action committee of the U.S. Chamber of Commerce, the National Chamber Alliance for Politics, Hatch has widespread public backing among Salt Lake City business leaders.

But Hatch's Democratic challenger, Salt Lake City Mayor Ted L. Wilson, 43, also enjoys popularity in business circles in the city. Municipal tax rates and the growth of city government are declining, while construction of commercial buildings and jobs have boomed during Wilson's six years in office.

Until seven years ago neither Hatch nor Wilson held any elected office. Both are active members of the Church of Jesus Christ of Latter-day Saints, the establishment church in Utah. And some of Wilson's political stands meet the Mormons' conservative requirements. For instance, he is against abortions and for bringing back voluntary prayer in the public schools.

On the other hand, Wilson bucked the church's stand on the Equal Rights Amendment. He was for it. He also became a national leader in calling for a nuclear weapons freeze and a reduction in weapons, and he is closely tied to political positions taken by labor groups, Senate Democratic leaders and his close friend, actor-environmentalist Robert Redford.

Redford, who lives much of the time at Sundance, Utah, has become a major money-raiser for Wilson's campaign. His Honor is not altogether unlike the character campaigning for public office Redford portrayed in the movie "The Candidate." Wilson has a boyish charm and an outgoing personality. His style is in sharp contrast to Hatch's.

SETH KANTOR *is a veteran Washington journalist.*

Close-Up

- Republican Orrin Hatch was the author of the balanced budget constitutional amendment bill, which passed the Senate, but Democrat Ted Wilson, although favoring balanced budgets, says an amendment is not needed.
- Democrat Wilson praised Ronald Reagan on getting the $98.3 billion tax hike through Congress. Hatch voted for the bill, but "only to make the best of a bad situation, since we couldn't get Congress to approve the needed spending cuts."
- Hatch's popularity in Utah sagged earlier this year when a statewide poll showed him with a 31 percent job disapproval rating among voters. Wilson's negative rating was 10 percent.
- But Wilson's private surveys showed Hatch increased his lead over Wilson from six points in June to as much as 10 points by Labor Day. The race is expected to come down to televised debates between candidates in October, when Utah's crucial 14 percent "undecideds" will make their decision.
- Hatch confides he wants to "guard against looking uptight like Jimmy Carter did against Ronald Reagan in their 1980 debate," when he confronts Wilson on television.

Mayor Ted Wilson (above, outside the City-County Building in Salt Lake City) is giving Sen. Orrin Hatch (across from the city's Mormon Temple below) a tough time in Hatch's bid for re-election.

And therein lies the story. Hatch is perceived by many voters as aloof and uncompromising. Despite everything Hatch has going for himself—his record of hard work in Washington and Reagan's consistent popularity in Utah—Hatch's critics portray him as an outsider in the state, a Pennsylvanian who settled in Utah a relatively short time before running for the Senate in 1976. Hatch spent most of his adult life in Pittsburgh as a lawyer, and campaign ammunition against him includes automobile bumper stickers urging Utah voters to send Hatch back there.

Wilson accuses Hatch of concentrating on national issues and not paying enough attention to Utah's problems, a traditional tactic of a challenger in a Senate race.

Bardsley & Haslacher, an independent research firm, showed in a poll for the *Salt Lake Tribune* taken on June 20 that voters in Salt Lake County, the state's population center, favored Wilson over Hatch by a 45 to 42 percentage margin. However, Hatch clung to a 46 to 40 lead statewide, the poll showed.

"After six years in Washington Orrin Hatch remains an enigma," says William Hughes, a young professional who typifies a large segment of the city's voters. "At the same time you get the feeling Ted Wilson is a political opportunist whose positions could shift with the winds."

Hughes says many of Utah's voters have become turned off as a result, and the November 2 election could be determined by the numbers who don't turn out at the polls.

"Meanwhile," Hughes says, "Hatch is in a position of power in Washington as a committee chairman, which could mean a lot for the state. After all, without a committee chairman, Utah has about as much clout in Washington as three football fields laid end to end. What is the point in turning out Hatch in order to get some junior senator in a minority party, with no clout?"

Candidate Wilson argues that Hatch's chairmanships of the Senate Labor and Human Resources Committee and the important Judiciary subcommittee on the Constitution mean nothing special for Utah. "We need influence in the areas of natural resources and energy," Wilson says, "and as chairman of the Energy and Environmental Committee of the U.S. Conference of Mayors I'm better prepared than Hatch to help our state."

"I've always broken my back to help this state," Hatch argues in his Salt Lake City re-election headquarters, ticking off a list of Utah issues he has supported and fought for.

"The point is," Hatch says, "organized labor knows that if I get defeated, Ted Kennedy will take over the Labor Committee, whether *de jure* or *de facto*, and will use that to launch his campaign for the presidency."

Sen. Edward M. Kennedy (D-Mass.) is ranking minority member of the Labor Committee, and the fight for control of that committee is of great importance to big labor and its antagonists in Washington, which is what makes the Hatch-Wilson Senate fight so important nationally.

Former Sen. Frank Church (D-Idaho) warned in a widely sent money-raising telegram for Wilson that the "defeat of Orrin Hatch will have an impact far beyond the borders of Utah.... No New Right legislator has more effect on critical issues. Orrin Hatch wants radical change—not well-considered reform."

AFL-CIO Committee on Political Education Director John Perkins has voiced fears that Hatch's agenda for change puts him in "a position to do us bodily harm."

Although COPE officials worry that if they raise too much money against Hatch they will set up a backlash in Utah in his favor, Communications Workers of America President Glenn Watts says organized labor will "spend all the money we can lay our hands on" to defeat him.

Hatch is convinced that during October "they're going to throw everything but the kitchen sink at me." The sena-


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Get it together—buckle up.
1983 LINCOLN
LINCOLN-MERCURY DIVISION
Ford

tor charges that labor has "all kinds of ways to use loopholes that businessmen can't use" to furnish unreported sums of money to the Senate race.

Federal Election Commission records show that by June 30 Hatch had reported receiving $1.8 million in contributions and spending $1.5 million on his campaign to stay in office. Wilson reported receiving $315,761 and spending $244,870.

Hatch recently told NATION'S BUSINESS that "I need to raise another $1.2 million by election day."

Those are staggering sums in Utah, where Hatch pulled off an upset victory over Frank E. Moss in 1976; he outspent him only slightly—$370,517 to $343,598.

"When Hatch talks about how much he likes the Houston oilers, he's not talking about a football team," chuckles Wilson's campaign manager Mike Graham.

Wilson's camp points out that by June 30 Hatch had received $330,000 from contributors in Utah but more than that from donors in Texas and New York. "He is closely tied to oil interests," Graham says.

The Wilson campaign, on the other hand, is being heavily fueled out of the nation's capital, where Senate Minority Leader Alan Cranston (D-Calif.) sent out a lengthy fund-raising message to potential contributors across the nation on behalf of the Democratic Senatorial Campaign Committee.

"Orrin Hatch is a dangerous threat to our most fundamental individual rights and liberties," Cranston declared. "He must be defeated."

In return Hatch has charged that Wilson will wind up in the pocket of the labor bosses and the big-spending Kennedy wing of the Democratic Party if Utahans don't keep Hatch in the Senate.

Hatch has become "a big-spending conservative, which is a new breed in Washington," Wilson says. "For years Hatch was critical of deficit spending, and he regularly voted against President Carter on lifting the debt ceiling limit. But twice now he has supported President Reagan in raising the debt ceiling limit."

Reagan was expected to come to Utah not once but twice in the closing weeks of the heated campaign to speak on behalf of Orrin Hatch.

During the Reagan administration, unemployment in Utah has been rising steadily.

It is more than 8 percent now, and there is concern it could top 9 percent by the end of the year—high, but still below the national rate, which recently was 9.8 percent. Reagan, who won in Utah with 73 percent of the vote against Jimmy Carter in 1980, retains a firm hold on the state, however.

Estimates are that the President's popularity remains at least at 73 percent right now along the Wasatch Front—the western slope of the Wasatch Mountain Range, where most of the state's population is centered in Salt Lake City, Ogden and Provo. That is bound to work in Hatch's favor.

CHICAGO

Fifteen hundred highway miles east of Utah's majestic Wasatch Front is Chicago's heavily populated ninth congressional district, which fronts on Lake Michigan—from grinding poverty to condo apartments on the city's fabled Gold Coast that are selling for as much as $1.25 million each, from ethnically mixed city neighborhoods to affluent suburbs.

The ninth district was a staid Republican bastion when Franklin Roosevelt won his first term in the White House a half-century ago. But most of its voters these days are independents and Democrats.

Sidney Yates, 73, has been winning his re-elections by landslide proportions for years and putting out little money to do it. For instance, in 1980 his campaign committee spent $63,024 although he blew his opponent away with 73 percent of the vote. But this year Yates is expected to spend $200,000. His district has been changed, and his hard-charging challenger, Catherine Bertini, 32, intends to spend $400,000.

Republican leaders in Washington and a long list of business political action committees, including the U.S. Chamber of Commerce political action committee, have been packing the energetic Bertini campaign with support, expertise and major funding.

Unlike Yates, who has been married 47 years, the single, "upwardly mobile" Bertini mirrors a new image in Chicago's ninth district—where thousands of unmarried, well-dressed, well-paid young business professionals are moving into the New Town section.

Candidate Bertini is on leave from the Container Corporation of America, where she directs the state and local public affairs office. Originally from Cortland, N.Y., she settled in Chicago five years ago. She is trying to appeal to other newcomers who "don't know from Sidney Yates," as a customer recently said in Garfinkel's, a neighborhood bar and restaurant on North Clark Street.

Only two current members of the U.S. House had been elected to Congress before Yates first got there in 1948, but when the owner of Garfinkel's recently rented out a nearby store to serve as Yates' re-election headquarters, he thought he was renting it to a city alderman.

Compounding the congressman's recognition problem is the fact that the ninth district used to stop at Chicago's northern city limits, but it was gerrymandered last year. Now it not only parallels the lakefront, but it meanders through suburbs such as Evanston, Wilmette and Skokie. Forty percent of the district is new.

A Market Research Opinion poll late last year informed the National Republican Congressional Committee that only 23 percent of the voters in the newly constituted ninth could identify Yates as their congressman.

Worse yet, only 36 percent of those questioned in Yates' long-held old district could identify him as their man in Washington. The poll also showed that Yates' job approval rating was only 51 percent. And that followed a *Chicago Sun-Times* computerized study of the voting records of all 435 House members that showed Yates and Rep. Al Swift (D-Wash.) were the two most liberal members in the House. If Yates is

Close-Up

• Incumbent Sidney Yates supports public financing of political campaigns; he recalls when his mailings were penny postcards instead of 20-cent letters. Yates voted to limit contributions by political action committees.

• Challenger Catherine Bertini stresses PAC contributions and has waged a successful campaign to gain large sums from business PACs throughout the nation.

• In the first half of 1982 Yates took the lead in the fund-raising battle, reporting $134,266 in contributions. But his only PAC donations were from two government employe union PACs—$200 each.

• Bertini emphasizes expanded U.S. business operations in foreign countries, advocating export trading company legislation that would allow small companies to pool resources. She hopes to go on the House Banking Committee to push the legislation.

• A House subcommittee that Yates heads is funding arts and humanities endowments. Members of the artistic community, at a Washington soirée, contributed $9,845 to Yates' campaign.

really all that unknown and unappreciated, it has paid off handsomely for him so far, judging by election statistics that show him steamrolling every two years over opponents who are far less known.

Yates intentionally has kept a low profile. He makes it a rule never to call press conferences. He even manages to avoid publicity in his role as head of the far-ranging House Interior appropriations subcommittee, which controlled about $12 billion in federal expenditures in the past fiscal year.

Consequently, people who regularly vote for him don't know much about him.

"I see him at all kinds of affairs in Chicago," says Chicago businessman Stuart L. Goldstein, a longtime occupant of the Merchandise Mart, the nation's single largest retail and wholesale center. "What I know about him is that at least he has never done anything bad. That's something you really hope for in a congressman."

When Bertini added up all the unknowns about Yates, she got an early start into the 1982 race. She lined up solid party backing and had no opponent in the Republican primary last March.

As Yates was stomping his primary opponent, capturing 83.6 percent of the vote while spending $67,710 in his newly carved district, Bertini was popping up all over the new ninth.

Meeting voters at bus stops, knocking on doors, shaking hands with startled passengers at 7 a.m. on elevated train platforms, telling her story to small and large gatherings, and organizing volunteers and raising funds, she underwent a visual change by the summer of 1982. No longer known as Catherine, she became Cathy Bertini on the newer posters and pamphlets. The candidate's picture changed on the posters from someone dressed in a matronly fashion to a more youthful, informal look.

But if Yates' name had some recognition problems, Cathy Bertini's name was recognized far less. One unusual solution she agreed to was to spend $5,525 to buy 50,000 shopping bags that advertised Bertini for Congress, to be handed out free to shoppers throughout the district.

Much of the literature passed out by Bertini campaign workers doesn't stress that the candidate is a Republican, since 76 percent of the district is made up of independents and Democrats.

A third of the district's population is 55 or older, so Bertini pamphlets also don't say anything about the 41-year age difference between the candidates. Instead they stress that a vote for the challenger is "a vote for the future."

Bertini has long been involved in politics. She served on the administrative and campaign staffs of the late Nelson Rockefeller when he was governor of New York. She was an alternate delegate to the 1972 Republican presidential convention and served as chairman of Young Voters for the President in the Nixon re-election campaign.

Later she directed youth programs at the Republican National Committee

Rep. Sidney Yates (above) was already in Congress when Catherine Bertini was born. She stresses that a vote against him and for her is "a vote for the future."

and worked as consultant and fund raiser in numerous political campaigns around the country. By 1980 she was a member of the Reagan-Bush National Women's Policy Board.

One policy she pushed hard for was adoption of an Equal Rights Amendment plank in the GOP platform, and she believes it was a major mistake for the Republicans not to endorse ERA.

Regarding President Reagan, who opposed ERA, candidate Bertini told NATION'S BUSINESS, "I support Mr. Reagan on economic policy, but I am not a Reagan Republican."

However, Bertini said her first reaction to the President's $98.3 billion tax increase bill that passed Congress in August, with Yates voting for it, was that "in an inflationary era it is ridiculous to raise taxes. Cuts should be made from defense programs first. But since the bill has passed, I'm hopeful it enhances the economic climate."

On many other issues in the predominantly liberal district (the suburbs added to the new ninth are mostly liberal enclaves), Yates-Bertini stands are barely distinguishable. Bertini says the government should not meddle in a woman's decision to have an abortion; she would push for reduced defense spending and a reduction in the nuclear arms stockpile.

But she accuses Yates of not paying enough attention to his district and says his concentration on Interior Department appropriations is "not what's important to Chicago."

During a dinner meeting with women business owners in a Chicago hotel in late August, Bertini said, "The No. 1 concern is the economy. We have got to deal with interest rates, government costs and inflation. We need to have more input from people like yourselves—people who understand balance sheets. Most staff members who provide input to congressmen are not oriented toward business."

She told the women executives that Yates' approach to government spending policies is different from hers. For instance, Bertini said she endorses legislation put forward by Sen. David F. Durenberger (R-Minn.) that would offer tax credits to business operators for hiring homemakers who have been out of the job market for years and need retraining.

In an appearance the following day, at Mundelein College on the city's North Side, Yates followed classic liberal lines. He was a panelist at a symposium conducted by United Charities of Chicago, attended by representatives of many groups involved in helping the desperately needy. Much of the discussion centered on hunger; Yates talked about "the plight of senior citizens who live on pennies a day."

Despite extreme wealth in Yates' district, unemployment is 10.5 percent and rising, and social issues remain vital.

Yates has talked of increasing taxes on business and closing tax "loopholes" in order to prevent further cutbacks in social programs by the Reagan administration.

But Bertini says that one loophole Yates voted for in this Congress was a bill that contained a rider giving members of Congress a $75-a-day subsidy to add to their living expenses. □

A court ruling in the nation's capital limited boating on Nevada's Ruby Lake.

Trials Closer To Where They Hit Home

A Senate bill would take more lawsuits against the government out of Washington and into federal courts across the country.

RUBY LAKE, 7,000 acres of shallow, island-pocked water that is the centerpiece of a national wildlife refuge in northern Nevada, is the West's largest breeding ground for canvasback ducks. It is also a playground for boating enthusiasts.

The Defenders of Wildlife, a group headquartered in the nation's capital, saw a conflict in these two uses of the lake a few years ago. Boating, it said, was endangering waterfowl propagation. It sued to force the Secretary of Interior to ban large gasoline engines from the lake.

A judge in Washington's federal district court, where the case was filed, granted the Defenders a temporary restraining order and eventually ruled in the group's favor. Both actions dismayed Sen. Paul Laxalt (R-Nev.), not so much because of what was done but because of the way it was done.

The restraining order, he says, was issued without any Nevada officials present—and just before the Fourth of July weekend, ruining plans of water sports lovers whose only alternatives to Ruby Lake were far away. And, he says, in rulings on such cases, "a judge in the area where a lawsuit will have the greatest impact is best-suited to really do justice because he knows local conditions."

Now Laxalt and Sens. Dennis DeConcini (D-Ariz.) and Alan Simpson (R-Wyo.) are sponsoring legislation to ensure that when a lawsuit against the federal government would have a substantial effect on a specific area, the case be tried in the U.S. district court with jurisdiction in that area, rather than in Washington as many now are.

"Special interest groups that have made Washington, D.C., the center for their operations will not be pleased at the thought of having to go to those parts of the country where results of their litigation will have great impact," says DeConcini, "but I believe it will be educational for them to realize the great plurality of feelings that exist west of the Potomac."

In cases between private parties, existing venue laws set the location of a trial where one or the other of the litigants lives or does business. Laxalt observes that "in suits against the federal government, we have seen important lawsuits, affecting regions outside of Washington, tried here because the only parties were the federal government and a public interest law firm." He cites a suit to review Colorado River Basin salinity control and water quality plans, a challenge to livestock grazing allowances in 11 Western states and an attempt to bar Mississippi farmers from using chemicals to control fire ants.

Hilton Davis, vice president for legislative and political affairs at the U.S. Chamber of Commerce, points out that locating such trials where the results would be significant would "allow citizens living in the area an opportunity to participate in the litigation."

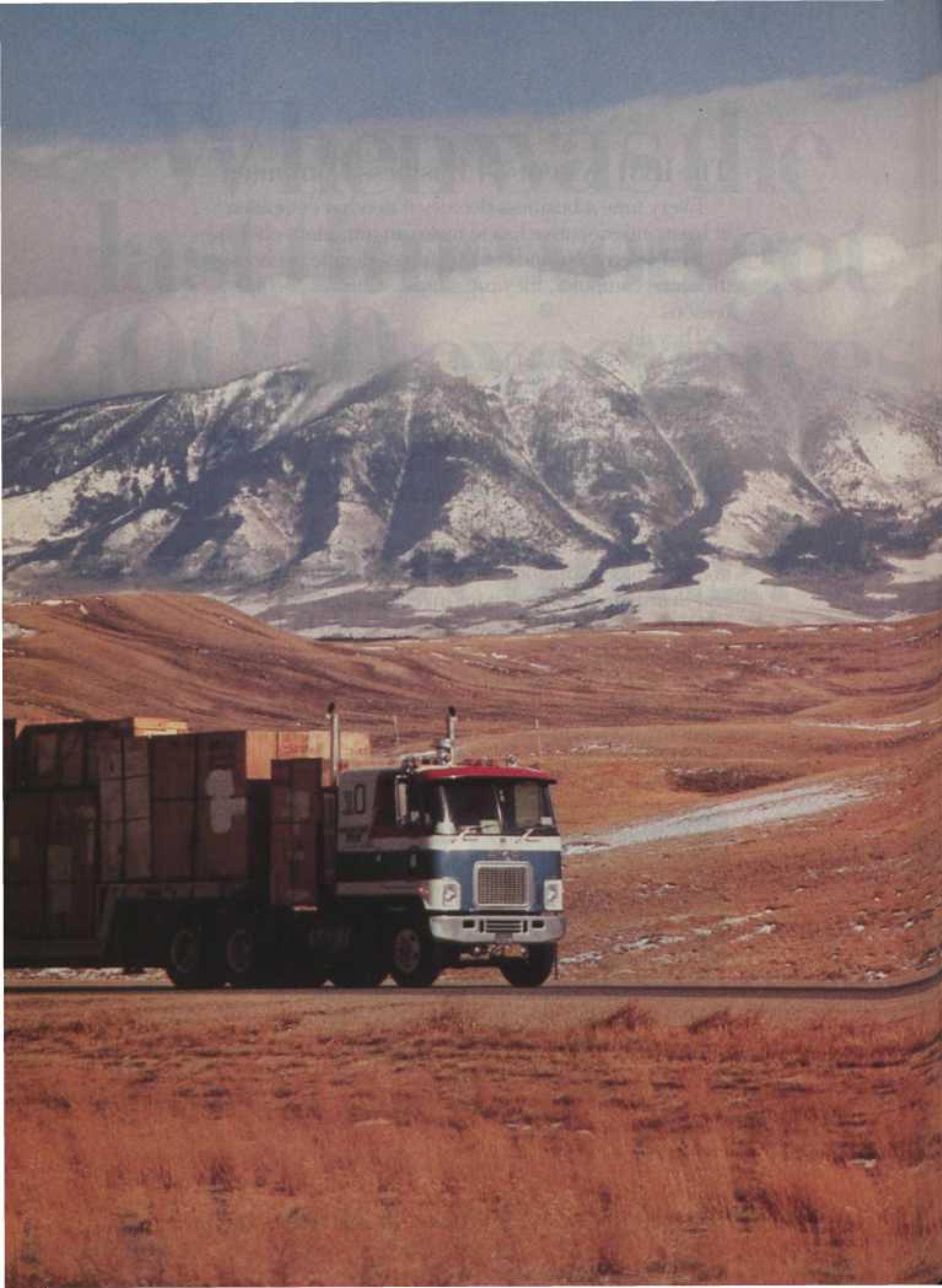
National environmental and consumer groups, most headquartered in Washington, heatedly oppose the bill. They say that not only federal agency chiefs but also other experts are readily available in the capital and that shifting venue to other district courts would make it more difficult and expensive to pursue lawsuits.

"The ability to litigate generic national issues in a place where the principal parties, the records, witnesses and the lawyers are all located is fundamental to the operation of a national conservation organization like the National Wildlife Federation," says Patrick Parenteau, the group's vice president for resource conservation.

ALSO, THERE IS the matter of such groups' record in Washington's district court. A Capital Legal Foundation study of environmental cases brought by public interest groups over a 10-year period shows that they won 68 percent of cases litigated in Washington and only 41 percent of those tried elsewhere. Thirty-one percent of the cases reviewed were decided in Washington.

To Ron Way, a spokesman for the National Wildlife Federation, the win-loss record is not the point. He says, "Federal judges, no matter where they sit, should interpret the law based on the legal merits of a case, not on a geographic basis." □

When was the last time you got 60,000 executives to agree on anything?



TRUCK MAKERS
An Industry Shifts Gears

Hit by poor sales in recent years, major manufacturers are trying new marketing and design techniques to regain stability.

THE TRUCKING INDUSTRY often refers to itself as the lifeline of America's domestic commerce, and statistics support that claim. For example, trucks:

- Carry 75 percent of U.S. freight tonnage.
- Transport 90 percent of fruits and vegetables.
- Carry 100 percent of livestock to market and 91 percent of fresh and frozen meat.
- Are the only means of transporting goods to more than 41,000 American communities.

Demand is expected to continue for customized components and personal facilities, such as this cab sleeping area.

Small wonder that Bennett C. Whitlock, Jr., president of the American Trucking Associations, says: "No other industry pumps so much into our national economy or does so much to improve the quality of our lives. America's prosperity is indelibly linked with a healthy transportation system."

Well, these are not days of prosperity, and the trucking industry is troubled economically. Nothing spells that out so clearly as the sharp decline in sales of trucks and buses made by U.S. manufacturers.

In 1978 truck makers sold a total of 3,036,283 vehicles. By 1980 sales had plunged to 1,667,283, the lowest level in two decades. The total edged up to just over 1.7 million last year, still 40 percent under the 1978 level.

Industry leaders note with restrained optimism, however, that as of mid-1982 truck sales were up 12 percent over the same period a year ago. They don't see these rising figures as a turnaround, but if interest rates continue their dramatic decline and stay down, the industry will be jubilant. Like their counterparts in the auto field, truck manufacturing executives consider high interest rates the bête noire of the industry.

Even with lower interest rates, truck manufacturers agree it will be a long time before the industry returns to the volume levels of 1979.

The economic problems of recent years have had a major impact on operations and marketing techniques involving such well-known names as Mack, GMC, Freightliner, Volvo White, Detroit Diesel Allison, Peterbilt, Dodge, Iveco, Ford and Chevy.

Manufacturers are coming through the recession with the help of moves that range from belt-tightening to mergers.

And in their marketing approaches companies are putting more emphasis on optimum operating economy of their vehicles.

"Although truck buyers will continue to look at price," says David Wilson, vice president of sales and marketing at Volvo White Truck Corporation, "the term would be better stated as cost, with a sophisticated buying process including careful evaluation of fuel economy, life of the vehicle, maintenance—even drive convenience, which can greatly affect both fuel economy and maintenance."

Manufacturers agree that today the purchase of a heavy truck must be based on what a truck will earn compared to what it costs.

"I'd rather sell a guy a $70,000 truck that will pay its way than a $110,000 truck that makes it impossible for him to come back and buy a second truck," says Neil Springer, president of International Harvester's truck group. "The owner-driver who specifies extras has to use options that are cost-beneficial. I don't know how much chrome he can afford to run down the road with a 450-horsepower engine anymore."

EMPHASIS ON operating economy may be unanimous within the industry, but how to package it is not. And if there is any subject at a truck manufacturers' convention these days that pushes talk of high interest rates into the background, it is packaging. In the industry it is referred to as the standardized truck versus the custom-spec truck.

"The issue may split the industry into two distinct segments," says George Fauerbach, marketing vice president at

Building a Truck by Computer

There is more to buying a heavy or medium truck than choosing the color and amount of chrome. Nowadays a customer sits down with a dealer, perhaps even the manufacturer, at a computer.

The customer describes his hauling needs and asks for the mix of components that will give him optimum fuel economy, durability and performance.

Using the computer, the truck maker comes up with the combination of engine, transmission and accessories to deliver the best performance.

Here is how one truck manufacturer's system works.

The buyer, responding to the computer's questions, enters his choices for power train components and energy-saving options, such as radial tires, fans and air deflectors. He also enters information about how the vehicle will be used and what it will haul.

He gets back from the computer a performance chart that displays horsepower requirements for speeds at various grades, available horsepower and vehicle speed in all gears at various engine speeds, and fuel economy for city, suburban and highway driving.

Using the performance chart, the buyer can determine how well the vehicle he just designed meets his needs. He then can zero in on the optimum mix of features by changing one or more of the variables in succession and observing the resulting changes in performance and economy.

A city tractor-trailer combination may show, for example, a fuel economy figure of 3.6 miles per gallon on a suburban haul. Switching the engine from gasoline to diesel may increase economy to 5.5 miles per gallon. And adding radial tires, modulated fan and air deflector may boost economy to 7 miles per gallon—almost double the original figure.

Some manufacturers have programed into their computers the road surface, grade and other characteristics of their regular customers' truck routes. Vehicles with different component mixes then can be "driven" over these routes by the computer, and the most efficient truck can be chosen, without guesswork, before the actual rig ever leaves the factory.

When the specifications are complete, the truck is custom-built with the exact components chosen. Precise manufacturing records are kept so that the vehicle can be duplicated.

Cummins North American Automotive.

Most truck manufacturers draw from the same pool of components made by outside suppliers. For example, a truck buyer can specify a diesel engine from Cummins or Caterpillar, and he might choose a transmission from Eaton or Dana. Similar choices can be made for virtually every major item—axles, suspension system, brakes, steering gear, right down to the air horn and driver's seat.

Lone exception among American manufacturers is Mack Trucks, which provides its own engines, transmissions and rear axles. Mack's integrated production approach is common among European manufacturers that export medium trucks to this country.

Fauerbach says for truck owners to forego the opportunity to designate the specifications they want in their vehicle in exchange for a standardized truck, the standard truck they buy must offer them something in return such as a lower price or equal durability. He contends truck manufacturers will have to build a standard truck of functional design at substantially lower costs to get customers to look at the product.

To economize, some U.S. truck manufacturers today lean toward reducing the number of options they offer buyers. International Harvester, for one, sees this as a means of reducing costs and making its vehicles more price-competitive with foreign-built trucks.

On the other hand, Freightliner has a reputation as a custom truck builder, and despite recent but modest cuts in options offered, it is sticking with its custom approach. Says Marketing Vice President Harrison Peddie: "If the customer wants it and will pay for it, we will do it. But we also believe that over time truck owners will go through a thought process. If they move to a more complex truck, Freightliner will become more complex; if they move to a simpler truck, Freightliner will be that."

Consensus among component suppliers is that although standardization of trucks may save money for everyone involved, that approach would slow down engineering innovations by suppliers:

"The component manufacturer is a full partner at the very heart of the trucking industry," says Robert Gillison, president of Eaton Truck Components Group.

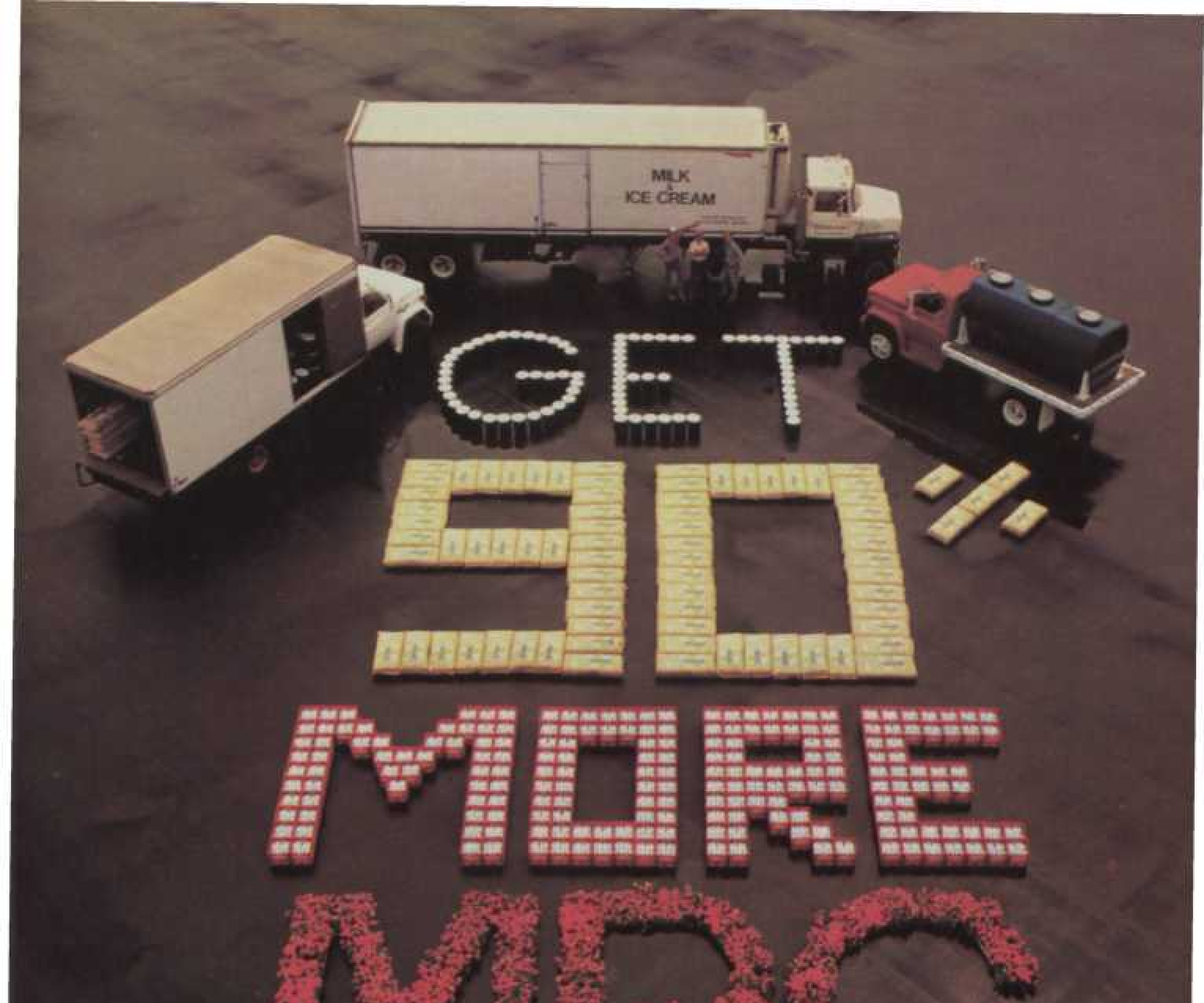
This prevalence of the component supplier network is in fact one reason the heavy truck industry has evolved today as a custom-building operation. In addition, suppliers enjoy the economies of scale necessary for sophisticated research and development.

On the other hand, integrated pro-

PHOTO: KENWORTH

Truck makers pay close attention to the aerodynamics of vehicles (above) to reduce fuel consumption, at the same time monitoring each step of assembly to ensure quality (below). Fuel efficiency, maintenance costs and durability are key factors to truck buyers.

PHOTO: MACK TRUCKS



Fuel Pincher equipped trucks are getting 90% to 98% more MPG in delivery type applications than the same trucks with gasoline power.

That's almost twice the mileage! We proved it in recent tests. And users are proving it every day, on the job.

The Fuel Pincher is a new engine designed as a diesel from the ground up for medium-duty trucks up to 50,000 lbs. GVW. Rated at 130, 165, or 205 horsepower, it performs much like a gasoline engine. Starts easy, even in cold weather. Has plenty of torque for climbing hills. And eliminates the gas engine's carburetor and ignition system problems.

So tell your dealer you want the affordable, efficient, and tough Fuel Pincher Diesel in your next medium-duty truck. Or call us for more information: **1-800-521-0121** (in Michigan **1-800-572-2424**).

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That full 90° tilt hood is a typical GMC time-saver. It lets you walk right in to look things over, and gives you plenty of elbow room to work in. We've shown it here on the Brigadier, GMC's lowest priced heavy-duty tractor, to make a point: We don't just build our top of the line trucks with your bottom line in mind. Our whole heavy-duty line is built that way. Other Brigadier time-savers: color coded air lines and wiring harness. Also, there's a convenient air junction block behind the cab, and the air lines have reusable fittings.

Some things you can forget about.

Of course, we know that things which need little or no upkeep at all are real time- and cost-savers. So we've endowed the Brigadier with the maintenance-free Delco Freedom Battery. And a new full-tilting, non-rusting aerodynamically designed hood is now available on models with engines up to 307 horsepower. New butterfly type hinged access doors are also available.

Trucks that look beautiful to a bookkeeper.

If you're beginning to see that our whole idea at GMC is building heavy-duty trucks that work as hard at helping keep your costs down as you do, we've made our point. And you may want to talk to your GMC truck dealer about buying or leasing a truck that really knows how to succeed in business—a talent that has made it the best selling truck in its weight class.* The GMC Brigadier.

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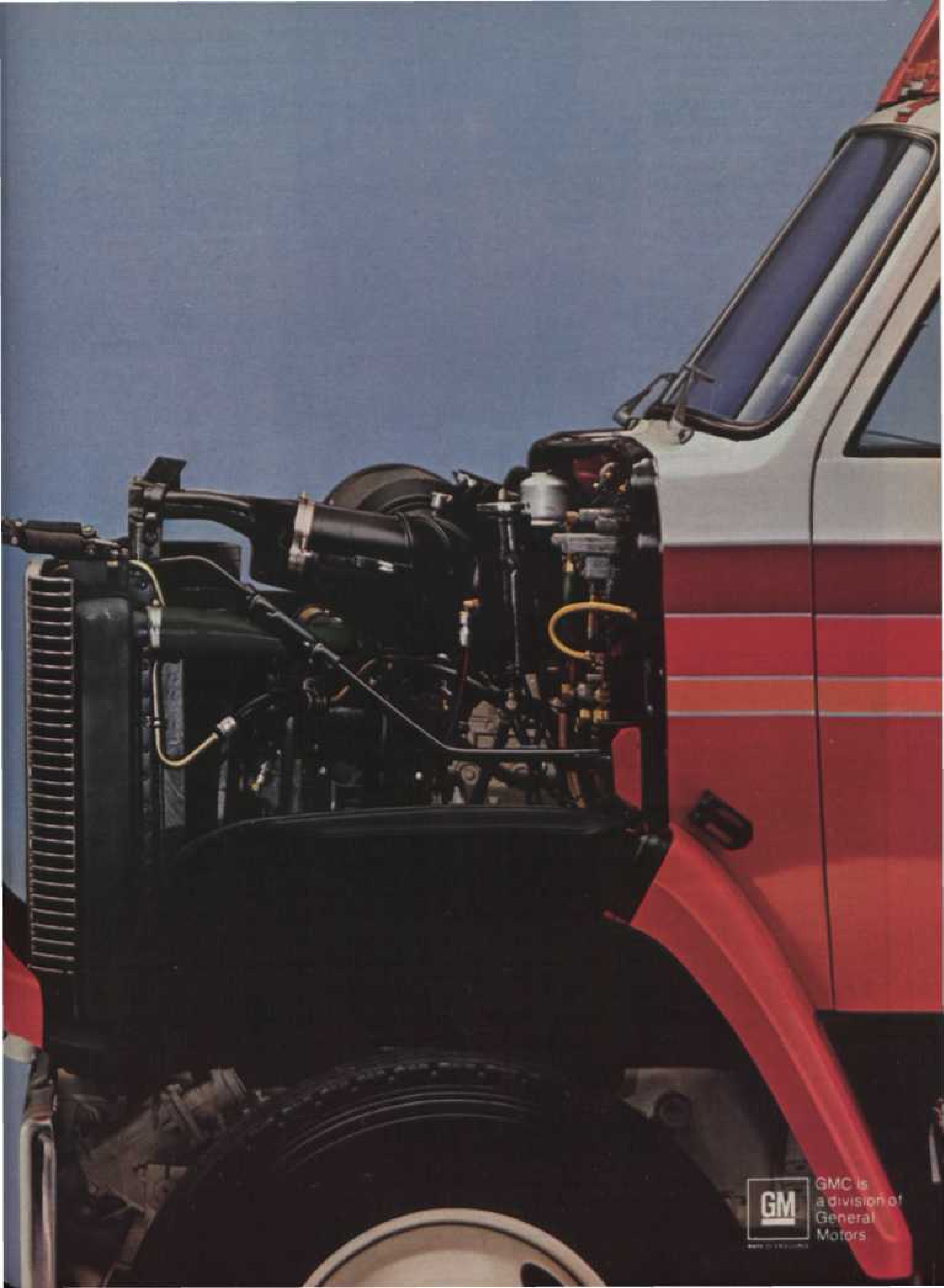
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General
Motors

ducers point out that their system assures complete compatibility of driveline components to achieve maximum performance and fuel economy. Maintaining quality control throughout the manufacturing process is another important plus.

HOWEVER, Alfred Pelletier, chief executive officer at Mack Trucks, admits his company may move away from total emphasis on its own components.

"We have always been integrated when you talk power train," he says, "but we cannot get into certain markets out there as an integrated manufacturer. So if it takes somebody else's engine or transmission or axle to sell trucks with the Mack bulldog on them in that market, then that is what we will build."

Use of electronics during truck assembly extends to selecting parts and creating a performance chart.

Assemblers and component suppliers have developed cooperative working arrangements that extend to the earliest phases of research and development.

After the supplier has developed and tested a prototype extensively, truck manufacturers evaluate it under laboratory and field conditions and subject it to a series of grueling tests to measure performance, durability and compatibility with existing components.

Many of the most sophisticated systems, such as electronic vehicle-monitoring and control devices, were pioneered by component suppliers working closely with truck manufacturers.

Some manufacturers believe too many optional components are offered. GMC, for example, has what it calls an E-Z Spec program involving a group of trucks that are built to standard specifications in an integrated manufacturing process.

James Riley, general sales manager, says that GMC will continue to promote E-Z Specs because of the program's "economic benefits to the manufacturer and the consumer."

Meanwhile, executives at PACCAR, which owns companies producing Kenworth and Peterbilt trucks, say that if other manufacturers emphasize standardized trucks, PACCAR will put more emphasis on customizing.

"Custom building is a way of life with us," says W.N. Gross, PACCAR executive vice president. "We now install five brands of engines in our trucks, and if somebody comes along with a good sixth engine, we will put it in for the customer."

It is this flexibility that some firms are depending on to draw a profitable share of today's skimpy heavy and medium truck market. At Volvo White, for example, Wilson says that his company's variety of products "to meet almost any medium- or heavy-duty application is an obvious strength." He adds:

"More than anything else, the key to any manufacturer's success in uncertain times is flexibility. Truck manufacturers have to be ready to respond to market demands with the right product."

WHETHER A TRUCK manufacturer can straddle the line, however, offering both a standardized truck and a customized vehicle in today's economy, is debatable.

Ford's James Capolongo, former vice president of truck operations, points out that "if you drop an option and your competitors go on offering it, you can end up losing business. But we simply cannot afford the complexities [of manufacturing] of the 1970s."

This dilemma isn't likely to go away soon. Industry leaders expect it may take the rest of this decade to resolve which side is right. A sudden, long-lasting boost in the economy, setting off a truck-buying boom comparable to the 1979 boom, would eliminate the whole issue, of course; but even the most optimistic economists foresee no such immediate, prolonged resurgence of economic health.

As a result, the 1980s have become the ultimate test of management skills and foresight for truck manufacturers. At stake are not only profits but, in some cases, survival. □

A Crude and Chaotic Beginning

The trucking industry in the U.S. was born around the turn of the century when a few enterprising businessmen hooked wagons to the backs of their new horseless carriages. Their range was rather limited, however, because of their weight and crude construction. They were used only for city deliveries and hauling freight between railroad terminals.

Early trucks, in which the engine and flatbed were stretched over the same chassis, weren't much better. They had no roof, doors or windshields. The drive assembly was on the right-hand side, and the tires were solid rubber, creating a bumpy and uncomfortable ride. Top speed was 20 miles an hour. Eventually trucks were equipped with roofs and roll-down curtains, followed by windshields, doors and side windows. But it was almost 1930 before most cabs were fully enclosed.

In those days trucking was an unstable and chaotic business. Responsible operators were at the mercy of short-lived gypsy trucking companies that undercut the rates of established companies and upset the industry's economy.

Motor carriers realized they would have to unite and fight for regulation in order to survive.

Two attempts were made at national unity in the late 1920s and early 1930s. A group of common carriers joined to form the American Highway Freight Association under the leadership of Ted V. Rodgers of Scranton, Pa. At the same time, A.J. Brousseau of Mack Truck Company and Frank Schmidt of the National Automobile Chamber of Commerce formed an organization of state affiliates called the Federated Truck Association of America.

Merger of these two groups in 1933 led to the founding of the American Trucking Associations, a group dedicated to the advancement of trucking transportation.

The founding of ATA, and the subsequent passage by Congress of the Motor Carrier Act two years later, paved the way for the regulated trucking industry as it exists today.

A Revolution in Design

A QUIET REVOLUTION is under way in truck design and engineering, brought on by vehicle operators' demands for better performance and fuel efficiency.

These are some of the key developments already in place or being considered:

Aerodynamic devices: Air deflectors mounted on cab roofs have become a common sight—with good reason. By directing air over the tractor-trailer in a smooth flow, they cut fuel consumption up to 6 percent. In addition, wind-tunnel testing has produced models with swept-back windshields, smaller wheel openings and skirts to close the gap between cab and trailer.

One truck maker estimates that equipping a tractor-trailer with an air deflector and rear-cab extender will save $2,500 in fuel costs over 100,000 miles.

Fan clutches: These devices disengage the engine cooling fan when it is not needed, which is about 95 percent of the time on the road. This reduces the power demand on the engine and boosts fuel economy up to 6 percent.

Radial-ply tires: Gaining in popularity are radial tires for trucks and trailers. They offer less rolling resistance than conventional bias-ply tires. That translates into reduced power consumption and fuel savings of up to 6 percent.

Lightweight materials: Manufacturers are turning to weight-saving aluminum for frames, axles, wheels, cabs, fuel tanks and battery boxes and to fiberglass and fiberglass-reinforced plastic for cab and hood assemblies. Weight-reduction experiments also involve use of graphite fiber and other exotic composites for drive train components.

Disk brakes: Several types of air disk brakes now being tested promise lighter weight and better resistance to fading than traditional drum brakes. Hydraulic disk brakes are already available on some medium trucks and school buses. They contain 75 percent fewer parts and have a predicted service life more than double that of comparable drum brakes.

Medium-duty diesel engines: Improving fuel economy is the primary goal of truck and engine manufacturers. An important development to date has been the growing use of diesel engines in medium trucks. Diesels have long been standard in heavy trucks. A diesel-equipped medium truck will deliver twice the mileage of a comparable gasoline-powered truck. Gasoline is facing another challenger in the medium truck range—a propane fuel system. Propane is especially suited to small-fleet operators and rural users.

Redesigned heavy diesels: Improvements in heavy-truck engines are providing maximum power with fewer revolutions per minute. Attention is being directed toward improving fuel-injection systems and turbochargers. Turbochargers are fans driven by exhaust gases that force air into the combustion chamber, thereby allowing the engine to develop greater power with the same amount of fuel.

Engines: Research is continuing on engine designs. Experiments center on gasoline turbine technology and on engines that burn substitute fuels, such as methanol, shale fuel oil and compressed natural gas.

Computerized control systems: Already in service is an electronic vehicle-monitoring system that measures and records various engine operations, including idling time, starts, stops and revolutions per minute. Data are then transferred from a cassette to a computer that analyzes the vehicle's operation and shows where driving efficiency can be increased.

In the works are microprocessors that can regulate engine fuel injection with pinpoint accuracy, thus increasing fuel economy and lowering emissions. An onboard microprocessor also can be programed to monitor tire pressure, brake systems and other components. A dashboard liquid crystal display would provide readouts on these data. One component supplier is developing an electronic instrument panel and onboard computer that monitors air brake pressure, oil pressure, water temperature, exhaust gas temperature in turbocharged diesels, fuel level and battery voltage.

PHOTO: INTERNATIONAL HARVESTER

To determine ruggedness and durability of trucks, manufacturers put them through a series of violent tests, including shaking in this expensive equipment.

If that is successful, the panel will be expanded to include hydraulic pressure in the power steering system, oil level, brake application pressure and fuel consumption rate.

Computer shifting: Computers may eventually take over the gear-shifting function from the driver. In one system under development, the driver merely selects the highest range he wants the transmission to reach; then the computer judges engine and speed conditions, compares them with preprogramed shift conditions and determines when to shift. A number of these units, coupled to automatic transmissions, are now on the road undergoing tests by truck manufacturers. □

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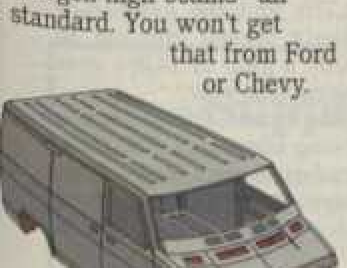

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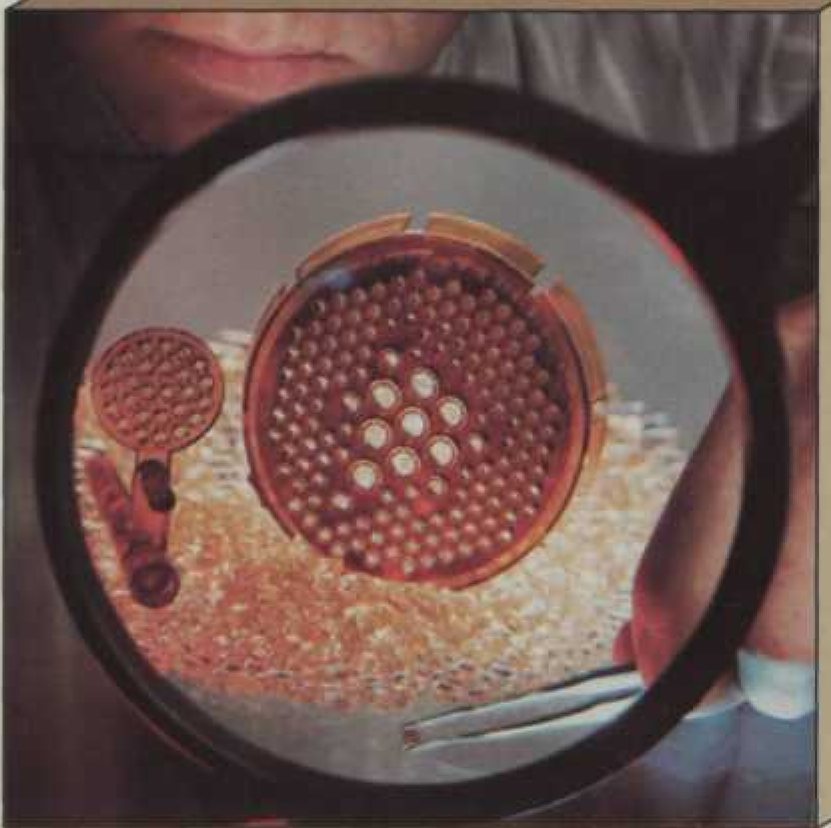

Patent Office files are not computerized, though loaded with applications as a result of today's complexities. Shown: a test of a General Electric resin.

The load was much lighter when Thomas Edison patented this bulb.

Our Patent System's Need For Innovation

Things are getting better, but inventors' frustrations could be reduced much further.

By Jervis C. Webb

OVER its long history, the U.S. patent system has gone through many cycles of problems and progress. The problems developed because of neglect, lack of foresight and other shortcomings common to officialdom. But corrective action inevitably followed. It was based on the unanimous view that the American patent system was so crucial to national progress that it had to be preserved and strengthened.

We now appear to be at another such turning point. There are encouraging indications in both government and the private sector of determination to resolve recent problems.

Among the signs of malaise of the past decade:

- Although the number of patent applications filed annually increased from 85,000 in 1961 to 106,000 in 1970, the growth rate slowed during the next 10 years.
- Individual and small business inventors were discouraged from filing patent applications because of long delays in processing by the Patent and Trademark Office.
- Inventors who finally received patents often faced the prospect of having to defend themselves against charges of patent infringement in federal courts considered unfriendly to the patent system.
- The Patent Office's filing system, which is not computerized, has become increasingly overwhelmed by the growth of material it includes—4.3 million patents, 7 million cross-references, more than 10 million foreign patents and 1.5 million articles from technical literature, a total of nearly 23 million documents.

Despite those problems, the number of applications rose in 1981 to a record 114,710; and the number of patents issued climbed to 71,010, a gain of 14,394 over the previous year.

The Patent Office logjam is being addressed. The number of examiners has been increased to 1,000, compared with a recent low of 850 in 1980.

Although the waiting time for issuance of a patent has remained at 22 to 23 months in recent years, that is a marked improvement over the 36 to 48 months it used to take.

Another hopeful sign for the improvement of Patent Office procedures was President Reagan's selection of Gerald J. Mossinghoff, a former patent examiner, as commissioner of patents and trademarks.

In taking his new post, Mossinghoff commented: "I think the present problems of the Patent Office stem not from

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JERVIS C. WEBB *is president of the Jervis B. Webb Company of Farmington Hills, Mich., which makes materials-handling systems. He and his company hold many patents.*

any public opposition to the office or system, but rather from the fact that through neglect the office has simply not been given sufficient resources to do its job."

The quest for additional resources includes exploring ways to automate the massive files; a recommendation by a study panel is due late this year.

FAVORABLE TRENDS are also developing in Congress and the courts. The latter have frequently been a problem area for the patent system. During the industrial expansion after the Civil War, the U.S. Supreme Court invalidated approximately 40 percent of patents challenged before it, but that percentage soared to 85 after passage of the Sherman Antitrust Act in 1890.

The view that patents somehow have monopolistic implications has been a recurring problem over the years.

Simon Ramo, an industrialist-scientist who holds many patents, writes in his book, *America's Technology Slip:* "In ensuring that no improper monopolies will exist, the government has found it difficult to view a strong patent position with favor. . . . Small business, so vital to overall technological innovation, is especially hard-hit by the present patent system practices."

Leonard Chudacoff, a professor at Northrop University School of Law, Inglewood, Calif., says that "enforcement of a patent against an infringer is extremely time-consuming and is easily the most expensive form of litigation in the entire business law spectrum."

Inventors also face difficulties when they have to defend their patents before judges who lack knowledge of the technology in question.

A major step toward resolving that problem was taken with the recent creation of the U.S. Court of Appeals for the Federal Circuit, which replaces the Court of Customs and Patent Appeals, takes over the appellate functions of the U.S. Court of Claims and will handle patent cases that formerly went to the 11 U.S. circuit courts of appeals around the country.

The circuit judges hear a variety of cases and are not necessarily patent law experts. But the judges serving on the new court, which convenes in October for the first time, must be experienced in patent law.

Even prior to the establishment of the court, inventors took heart from recent Supreme Court decisions that established the following:

- The owner of a patent is legally entitled to prevent competitors from manufacturing and selling an unpatented ingredient that is crucial to the patented process and for which no other use is known.
- An industrial process can be eligible for a patent even if it uses a mathematical formula or computer program that itself would not be patentable.

In another important decision, the Court of Customs and Patent Appeals ruled that a drug patent was valid even though the application did not specify dosage. The court said a delay to determine specific dosages for the patent would frustrate, not further, the public interest.

THERE ARE encouraging signs on the legislative front, too. A 1980 law enables small businesses and nonprofit organizations to obtain exclusive licenses to go into production on inventions they developed with government funds and on which the federal government holds the patent.

This law will not only spur innovation, it will also provide opportunities for commercial use of nearly 30,000 government-held patents. In the past, businesses have considered such use too risky without assurances of exclusivity.

A bill that has passed the Senate would resolve a major problem faced by many private-sector innovators—the long delays, caused by federal regulations, between patent award and marketing. The Patent Term Restoration Act would extend by a maximum of seven years the term of a patent for a product withheld from the market because of federal testing.

If the trend toward improving our patent system continues, it augurs well for the American economy. With greater incentive to innovate under a strengthened patent system, there will be spurts in technological development.

New inventions will increase our nation's productivity, which will result in a stronger economy and a better competitive position in world markets. None of this will come about overnight, but the modest progress already made in changing our patent policy should be supported and encouraged.

Along the way, it might be helpful to remember Mark Twain's warning that a country without a good patent system is like a crab—able to move only sideways. □

How Inventive Must an Invention Be?

Anxious to maintain its position as the center of the fledgling publishing industry, 15th-century Venice guaranteed developers of new printing technology exclusive rights to profit from their innovations. Venetian officials thus established the first systematic grant of patents as protection for inventors.

Other nations eventually adopted that policy, extending it to a broad range of products and processes. (The name of the system stems from the *letters patent*, or open letters, through which rulers conferred such privileges as noble titles, authority to make voyages of exploration and exclusive rights to trade.)

Abuses crept in. In 1624, the English Parliament abolished all monopolies with the exception of patents issued to original inventors, which were good for 14 years.

English settlers brought the patent system to the New World. The first patent issued in America, which covered a process for producing salt, was recorded in 1641.

Framers of the U.S. Constitution authorized Congress to "promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writing and discoveries."

The first Congress was swamped with patent applications. At George Washington's request, it passed the Patent Act of 1790.

Originally, the law authorized the issuance of patents for inventions deemed novel and useful. But many applications covered insignificant variations on existing patents—one entrepreneur sought a patent for a doorknob that conformed to existing designs but was made of porcelain instead of brass.

The U.S. Supreme Court put a stop to that approach with an 1850 ruling that a patented device must not be obvious and must contain "invention."

In seeking to establish a standard, the decision actually introduced a major new problem: How do you define invention?

At one point, the Supreme Court said it could not be done. In 1941 the court tried again, holding that an invention must embody "a flash of creative genius."

The Patent Act of 1952 did away with the "flash of genius" doctrine and instead stipulated that to qualify for a patent, an invention must not have "been obvious at the time . . . to a person having ordinary skill in the art."

But that has sparked a new round of controversy, and the question of what is obvious has replaced the arguments about the concept of invention.

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Building on strength

Advice to Treasury:

Borrow Techniques From Private Sector

THE NATIONAL DEBT has gone up 86 percent over the past five years, but the annual interest payment has increased more than 140 percent.

With those interest charges now running more than $100 billion a year, it's time to think about some of the creative financing techniques private borrowers used to hold down interest costs during the tight-money crunch, a new study published by the Heritage Foundation suggests.

"The U.S. Treasury is faced with financing record federal budget deficits for a number of years at least," the study says.

Interest, which represented 9.5 percent of the federal budget in 1977, is expected to be more than 15 percent of the budget in fiscal '83.

"In such an environment," the study says, "the Treasury must sell its debt as widely as possible at the lowest possible perpetual interest cost. . . . It is particularly important that the Treasury consider innovative and creative means of carrying its debt burden."

The study's author, George Kaufman, an economics professor at Loyola University of Chicago, says implementation of his recommendations would ease the burden on taxpayers, help reduce interest rates generally and encourage long-term personal saving.

Kaufman suggests the Treasury Department consider such steps as:

- Issuing zero coupon bonds, long-term variable-rate bonds and long-term bonds with "put" options.
- Urging Congress to remove the present ceiling on issuance of long-term bonds with coupon rates above 4.25 percent.
- Concentrating Treasury sales of nonbill issues in two weeks of each month.

Purchasers of zero coupon bonds receive a single cash payment at maturity of the issue. "In the past year," Kaufman says, "ZCBs have come of age on both the corporate and municipal bond markets."

He notes that the bonds allow the issuer and the investor to lock in interest rates each considers favorable at the time of sale.

Kaufman says the sudden popularity of ZCBs also stems from tax advantages to the issuer. A private issuer can charge off the annual amortized appreciation of the original issue discount as interest expense against taxable income, although no cash outflow occurred.

An investor, on the other hand, must report the annual amortization of the original issue discount as interest income in the year it occurs, even though there is no cash receipt. For that reason, primary buyers of ZCBs have been tax-exempt investors.

The variable-rate bonds suggested by Kaufman would pay interest rates based on an index of short-term rates.

Face value of the bonds would range from $1,000 to $100,000. Kaufman says that range would give smaller investors an opportunity to buy securities "protected against major loss in purchasing power from inflation."

The "put" options the study recommends for long-term bonds would allow investors to sell the securities back to the Treasury at designated times at a predetermined price.

Such bonds, Kaufman says, might "provide additional incentive for the government to pursue effective anti-inflationary policies."

In recommending that sales of government issues other than Treasury bills be confined to two weeks out of the month, Kaufman says the procedure would "increase market certainty and provide the market with additional time to absorb the new issues, thus encouraging the lowest interest costs."

The Treasury's minimum denomination on coupon securities less than three years from maturity is now $5,000, and it is $10,000 on Treasury bills. Kaufman says the minimums in both cases should be lowered to $1,000.

He says this would broaden the market to smaller investors and "provide them with yields equal to those offered others."

By broadening the demand, Kaufman says, the lower denominations might "reduce interest costs moderately."

Kaufman says reducing the cost of carrying a federal debt that is close to $1.3 trillion is particularly desirable at present, "when the tremendous size of federal government deficits is widely considered a major cause of the high levels of interest rates, is crowding out private investment and is thereby possibly delaying and weakening economic recovery." □

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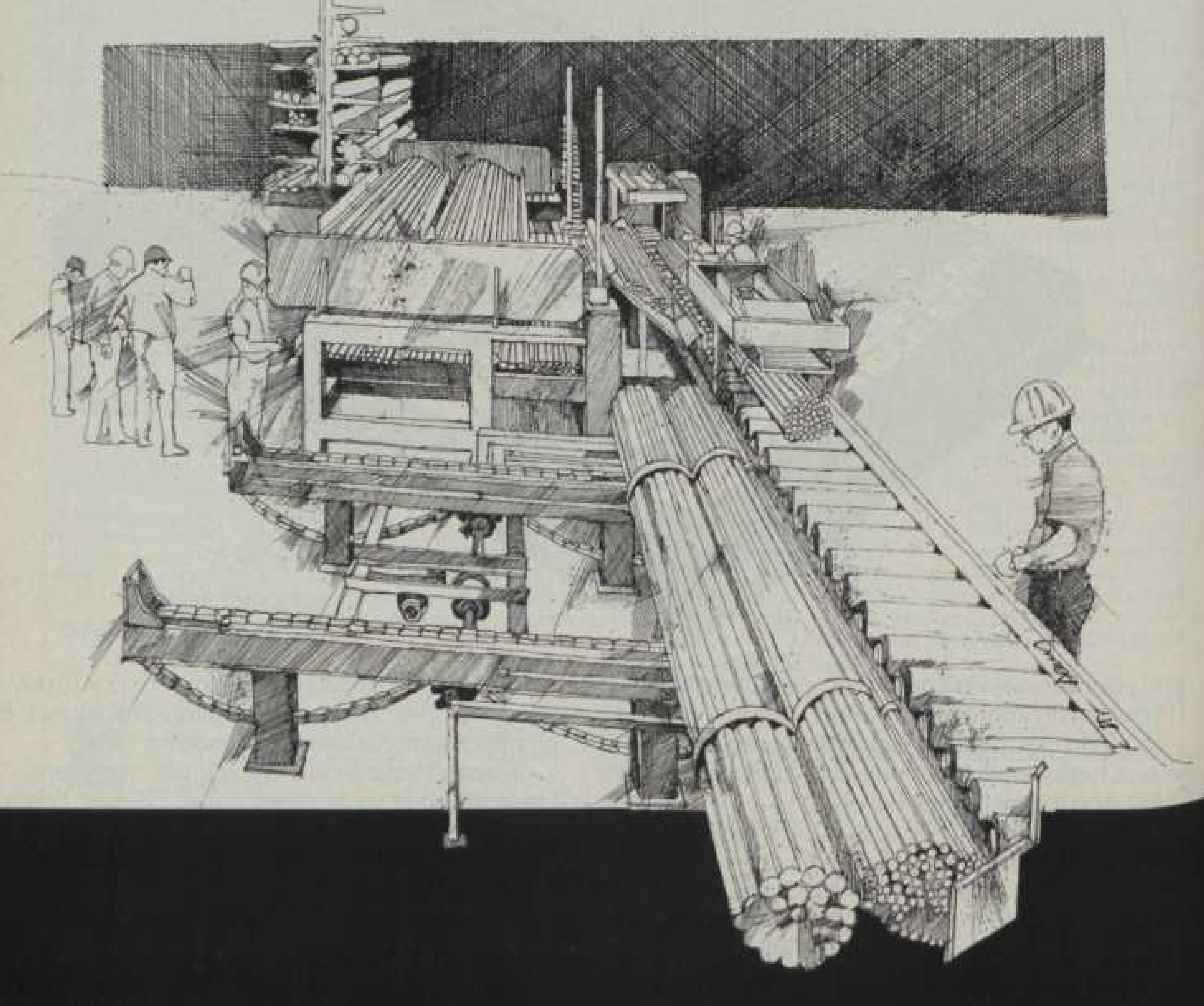

It's Tough Doing Business With Washington

Many companies find government procurement an impenetrable maze. But there's a move to straighten things out.

By Mary Tuthill

Red tape not only aggravates those who try to sell to the federal establishment, says Sen. John Danforth, but it costs taxpayers billions. He says the White House must fight hard for reform.

UNCLE SAM is this nation's biggest consumer. His purchases now amount to approximately $134 billion a year—about a fifth of the federal budget. But selling to him involves some 4,000 statutory provisions governing procurement, and contractors often find that doing business with the government is more trouble than it is worth.

One businessman who found the system unworkable is James F. Gilbert, president of Gilbert Brass & Aluminum Foundry Company in St. Louis.

Gilbert's company bid on a contract to make survey markers for the Army Corps of Engineers. The markers are disks 3½ inches in diameter; on the underside of each disk is a stem, shaped much like the old-fashioned one-piece clothespin, that is set in cement.

On his first bid for a lot of 10,000 markers, Gilbert found that he barely broke even because government packing instructions required such bulky packaging—"as if we were shipping medals," he says—that it took two deliveries to ship what could otherwise have been sent in one truckload. So on his next bid Gilbert raised his price from $1.55 per marker to $2.50.

By then, however, the inspector who had approved his lots had retired. The new inspector, whose previous experience had been with medical supplies, judged survey markers by the book. And he followed every detail of the regulations. In the course of several contracts, he rejected thousands of markers.

Although this survey marker is quite functional, it was miscut by a small fraction of an inch. A federal inspector rejected it.

PHOTO: GILBERT BRASS & ALUMINUM FOUNDRY

Gilbert brought one of the rejects to hearings on procurement practices held in May by the Subcommittee on Federal Expenditures, Research and Rules, chaired by Sen. John C. Danforth (R-Mo.).

The failing marker was miscut by a small fraction of an inch. The shaft, which ends up in cement, was slightly shiny. Such rejects still do the job and are used by commercial, state and local surveyors, but they cannot be sold to the federal government, whose regulations specify a dull finish.

Gilbert finally decided that to compensate for the high rate of rejects and the expensive packaging, he would have to charge $4 for each marker.

"I'm a taxpayer," Gilbert testified. "I resent what I must charge. But as a businessman, I resent losing money."

He has not bid on any more government contracts because they were not worth the trouble.

Business' frustration with the cumbersome government procurement system is not new. Neither are government's efforts to end it. Congress recognized in 1969 that the federal government could spend its procurement dollar more wisely and established a commission to study the system.

In 1972, the commission called for re-

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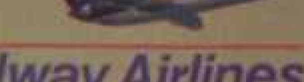

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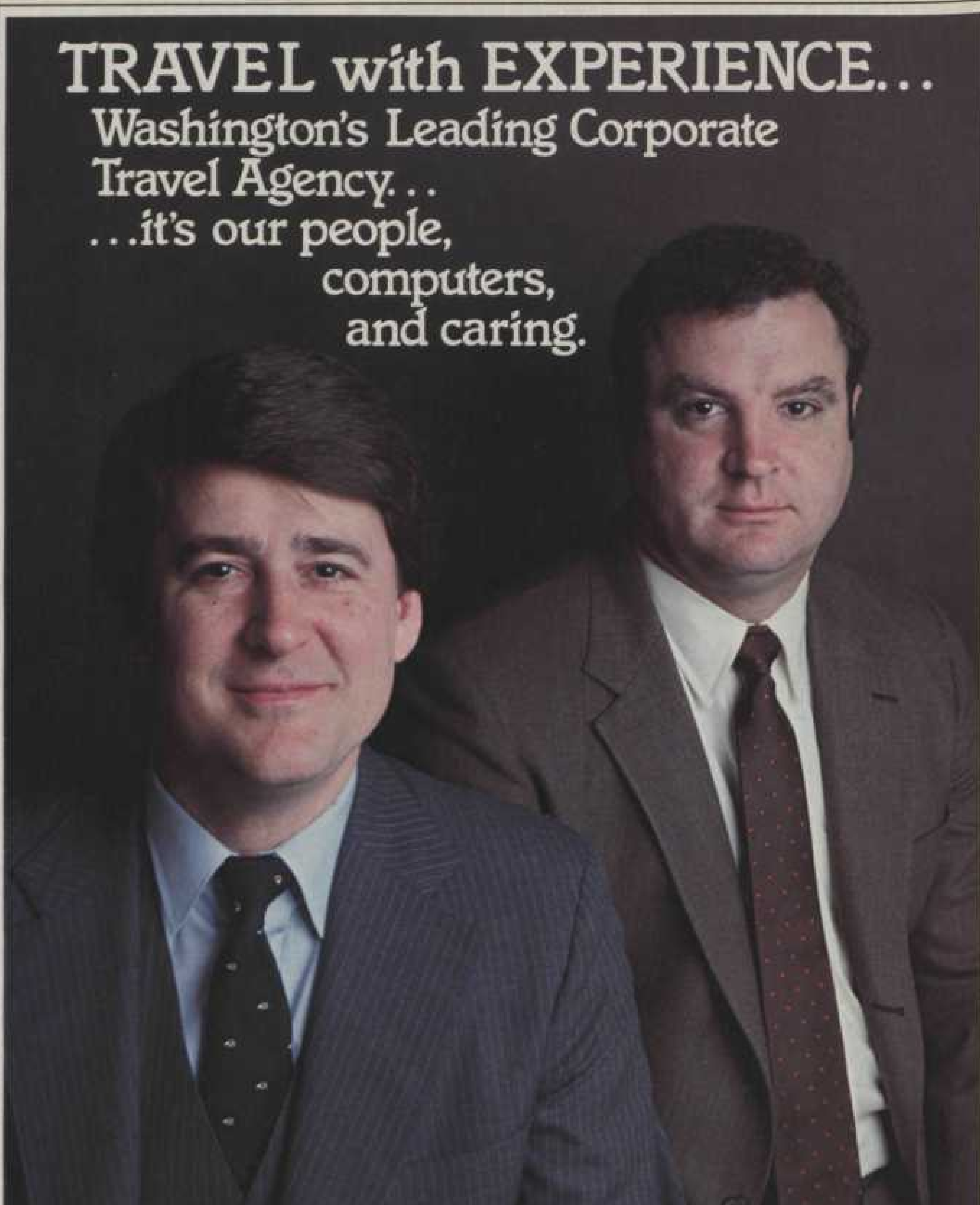
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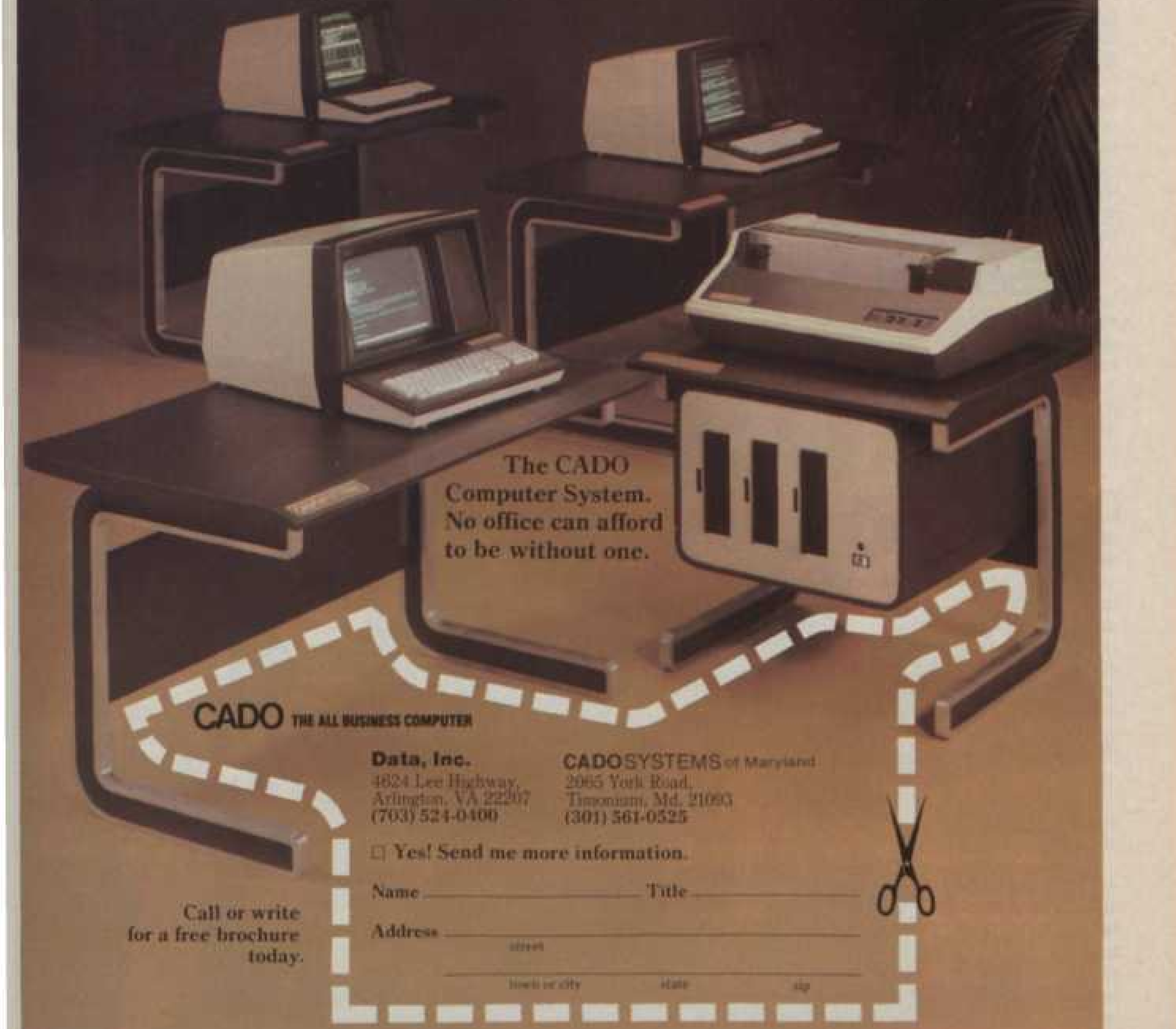

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vamping the contract system. It said a coherent, government-wide system was needed to replace the fragmented laws, regulations and authorities that had evolved over many years. In response to the recommendations, the Office of Federal Procurement Policy was established within the Office of Management and Budget.

The OFPP has authority over procurement by executive agencies and recipients of federal grants of property, other than real property; over services, including research and development; and over construction, alteration, repair or maintenance of real property.

ALTHOUGH SOME structural and substantive procurement reforms proposed in 1972 are now in place, the program is far from complete. The last OFPP Authorization Act, in 1979, mandated that reform proposals be sent to Congress by last October. An extension was granted and the remedies are now under consideration.

"Estimates vary," says Danforth, "but if we can reform the federal procurement system, we can save from $5 billion to $20 billion each year and do it without cutting back on the goals of a single government program. For this reason, I expect OMB and the White House to be as tough in fighting for procurement reform as they have been in the fight for budget cuts."

In hearings, Danforth outlined some of the problems: "Rules and regulations that entangle the federal procurement system do more than simply aggravate the people who try to do business with the federal government. They cost the taxpayer money. The complexities of the procurement system discourage people from doing business with the government. That means less competition for government work and higher prices.

"And the government's propensity for writing detailed specifications for government work, telling businesses how to build products instead of just telling businesses what it wants to buy—that costs money, too, driving up costs as businesses strive to customize products to government specifications. It also keeps the government from taking advantage of new product innovations, new technologies."

For a number of years the government paid more than anyone else for refrigerators because, among other things, it continued to specify metal ice cube trays after commercial manufacturers had switched to plastic.

The procurement system obviously needs improvement, but the path toward that end has not been agreed on. In February the administration proposed a system of flexible funding to ensure more efficient planning and avoid year-end spending. It would also describe what is needed rather than tell business how to meet the need, shorten and simplify procedures and improve contract administration.

PHOTO: THE WHITE HOUSE

Donald Sowle, administrator of the Office of Federal Procurement Policy, says that the reform issue is "very complex."

The proposal includes a streamlined management structure with clear lines of authority, responsibility and accountability; decentralized agency procurement operations that are responsive, efficient and free from cumbersome regulations; a professional work force with latitude for initiative and business judgment; understandable and measurable standards for management and operational performance; a control system that identifies problems early; organized feedback on how well the system is working; and a way to adjust the components of the system.

Although Danforth was satisfied that such a procurement system would result in greater efficiency and savings, he was disappointed in the implementing legislation suggested by the administration in April. He is expected to introduce a bill of his own when the new Congress convenes.

PHOTO: VINCE FINNIGAN & ASSOCIATES

Former OFPP head Lester Fettig laments that the Defense Department stands in the way of a uniform procurement code.

He and many others in Congress want a single statute. There are now two statutes governing federal procurement, one for the Department of Defense and one for civil agencies. The administration's proposal would modify the two statutes and downgrade the central authority of OFPP.

As a stopgap, President Reagan signed an executive order in March intended to "ensure effective and efficient spending of public funds through fundamental reforms in government procurement." It directs OMB, through OFPP, to inform the President of the agencies' progress toward making procurement more efficient. Donald Sowle, administrator of OFPP, says, "This executive order is being taken very seriously by the heads of agencies and should bring about 50 to 60 percent of what we're shooting for, but we still need legislation."

Although business would benefit more from a unified procurement system, any revisions to simplify the present system are welcome.

Hugh E. Witt, who was the first administrator of OFPP and is now vice president for government liaison at United Technologies Corporation, says, "Although there's no chance that legislation will go anywhere this year, sometimes people pay more attention to their immediate boss than they do to legislation, and the executive order is signed by the President of the United States." He points out that legislation would not require progress reports to the President, which the executive order does.

THE U.S. Chamber of Commerce worked with OFPP as it formulated the administration's legislative proposal and is now helping the agency implement the executive order.

Chief stumbling block to a unified procurement system, according to another former OFPP administrator, is the Defense Department, which has favored status in this administration. Defense, says Lester A. Fettig, gets two of every three dollars spent by government, and both Defense and the Armed Services Committees favor only adjustments to the present system.

"It's a very complex issue," says Sowle. A unified system is not likely in any event.

Says Fettig, "We who support a uniform procurement code are just plain wasting our time unless the President himself wants a single procurement statute, unless the President says his administration is going to spend some political chit with the military services, the Senate and the House." □

John W. Hanley's Agonizing Decision

Monsanto's chairman left a fine job at Procter & Gamble after 25 years. Why? He likes challenges.

By Grover Heiman

FROM HIS birth until his graduation from college, John W. Hanley's family moved every year.

Hanley was born in Parkersburg, W. Va., but he was there for only a few months. His father, a sales executive for the Toledo Scale Company, Toledo, Ohio, was always receiving new assignments.

The assignments took the family to New York, Detroit, Harrisburg, Philadelphia—"all over the eastern United States as far south as Baltimore," Jack Hanley recalls. This nomadism gave young Hanley a jaundiced view of the life of a salesman.

"We lived well but always in someone else's house," he recalls. "My mother had a set of curtains that she said had been up and down 13 times."

Hanley determined that, whatever career path he chose, it would not be in sales. He did not reckon, however, with the natural instincts that made him a classic example of the born salesman.

As a teen-age soda jerk, he asked customers not whether they wanted an egg in their milk shakes, but whether they wanted one or two.

As a student at Pennsylvania State University, he set up a network of florists' sales representatives in fraternity houses, netting a percentage on each corsage sold.

PHOTO: TOM EBENHOH—BLACK STAR

Jack Hanley has imprinted Monsanto with his entrepreneurial style of management. He vows to make the company the world's leading agricultural chemical producer.

While at Penn State, he took an aptitude test that showed his talents were best suited for marketing.

But he graduated with a degree in metallurgical engineering and went to work in Allegheny Ludlum's Pittsburgh steel plant before World War II service as an officer in the U.S. Navy. Most of his service was aboard a heavy cruiser, the *U.S.S. Chester*. ("I lived longer on the *Chester* than I had ever lived anyplace," Hanley says.)

Re-evaluating his career goals while in the service, Jack Hanley surrendered to what was probably inevitable—the lure of a sales career. After leaving the Navy, he embarked on a path that eventually took him to his present positions of chairman and chief executive officer of Monsanto Company, the diversified chemical firm that had sales totaling nearly $7 billion and earnings of $445 million last year.

St. Louis-based Monsanto has 57,000 employes in 173 manufacturing plants, laboratories and technical centers in 21 nations, and it sells more than 1,000 products in 100 countries.

The company turns out chemical, agricultural, plastic, chemical-fiber and electronic products. In the electronics field, Monsanto is the world's largest supplier of the polished silicon wafers from which chips for microprocessor circuits are made.

ALTHOUGH SPECTACULAR success as a salesman put Jack Hanley on the road that led to the top at Monsanto, the success was achieved at a different company—Procter & Gamble.

Here's how that situation developed:

After leaving the Navy, Hanley asked Allegheny Ludlum to assign him to its sales force but found there would have to be a long stint in the production end first. Preferring not to wait, Hanley earned an M.B.A. at the Harvard Graduate School of Business Administration with the intention of forming a sales representative team with his father, who hoped to start his own business.

But first Hanley wanted some on-the-job training, and he joined Procter & Gamble as a soap salesman because P&G had a highly acclaimed training program.

P&G sent him to Los Angeles, where his actual training consisted of two days in the company of a veteran. On the third day, Hanley did the selling, and by the end of the week he was on his own.

From the beginning he not only tried to outthink his competition, he also outworked his peers.

"You have to make the law of averages work for you," he says in describing his sales techniques.

Observing that most salesmen averaged six sales on 12 calls a day, he made 16 calls and eight sales by getting to work earlier and giving up a lunch break.

He had other goals when he arrived in Los Angeles. One was a date with movie star Betty Grable. But he soon met Mary Jane Reel of Carmel, Calif., who was attending a Beverly Hills finishing school. They teamed up in a sales contest five months later, selling Dreft detergent to small stores in a Mexican-American section. With her help, Hanley won the contest. A month later they were married.

Over the next few years, Hanley moved up rapidly. He was a sales instructor in Seattle, a sales supervisor in Minneapolis, a district manager in Chicago and later a division manager in the Southeast. Any remaining thoughts he had about going into business with his father ended when his father died in 1951.

By 1955 he was 33 years old and sales manager at P&G's Cincinnati headquarters for its soap and detergent division, the company's leading revenue producer (70 percent) and profit maker (85 percent). By 1960 he was general manager of the division and eager for responsibilities beyond marketing.

Over the next decade he expanded his knowledge of the overall company as he became a vice president, group vice president and then finally executive vice president, and member of the board of directors. It seemed only a matter of time before he moved up to president and then to chairman.

Enter Monsanto. The giant chemical company was looking for a president in 1972 and was familiar with Jack Hanley's track record at one of the best-managed companies in the country. And Hanley knew Monsanto. One of his duties at P&G was assuring adequate supplies of raw materials. Monsanto was a prime and in some cases the only supplier, and Hanley had not been reticent in specifying the quality of products he expected.

Hanley recalls the story that one Monsanto director involved in the search for a president suggested going after "that S.O.B. Hanley because he's always coming down here and telling us how to run this business anyway."

The fact was that Hanley's name kept appearing at the top of a list of candidates prepared by an executive search firm. Although his P&G experience was not in Monsanto's field, he had studied chemistry in college and had broad business experience and an ability to learn quickly.

PHOTO: FERENC BERKO

Mary Jane Hanley, who once helped her husband sell soap door to door and win a sales contest, still takes an active interest in his work. In this case she is with him and other businessmen at a seminar at the Aspen Institute in Colorado.

In October, 1972, Jack Hanley left Procter & Gamble after 25 years and became Monsanto's president and chief executive officer.

HIS DECISION to move, he says, was the most agonizing decision he had ever made but was unquestionably the best. He recalls:

"I wanted to run a company, and Monsanto offered me that chance right then, along with challenges I wouldn't have had in my career at P&G. About all the CEO at P&G could do with such a well-managed company was fine-tune things."

On his first day in St. Louis, Hanley called in top Monsanto executives and told them they had a new job—educating him and catching mistakes, which he expected to make every day. Hanley

was given a lot of information about technology, and he spent a lot of time away from St. Louis at various Monsanto installations.

As a student of Monsanto, he gets high marks. At the end of his first three years in his new job, Monsanto sales had risen 63 percent, to $3.6 billion, and earnings had more than doubled to $306 million.

In September, 1975, he was elected chairman. He retained the position of CEO.

Sales and profits have continued to climb under the top management team of Hanley and Richard J. Mahoney, Monsanto's president and chief operating officer.

Hanley brought a dash of the entrepreneur to Monsanto management. In one instance, that resulted in a loss to the firm. Hanley and his team bet that Monsanto's polyester-filament technology would progress at a certain pace, and it didn't.

"It was about two years late for us, and we had to sell out at a considerable loss," Hanley says. "My mistake was in underestimating the difficulty of bringing to fruition our technological lead. I subjected the company to substantial losses, but if faced with the same circumstances and factors, I'd probably make the same decision today. We were taking a risk.

"If American industry doesn't take risks like that, then we as a nation are going to find ourselves second-class citizens."

Hanley cites an instance where risk-taking—corporate entrepreneurship—paid off handsomely. He concluded that Monsanto was underfunding its agricultural chemical division, both in manufacturing capacity and research.

"We poured the coal to it," Hanley says, "and today it is the driving motor of Monsanto. We are the No. 1 U.S. herbicide manufacturer in terms of volume and profits. A steady stream of new products is coming from our laboratories. Monsanto, quite frankly, aspires to become the IBM of world agriculture."

Jack Hanley has instilled a management style at Monsanto that focuses on moving decision-making to the lowest possible level. He has fostered a climate in which people have the opportunity to use their own particular skills and personalities.

His belief in such a climate, Hanley says, goes back to Seattle when he was sales supervisor and had to write an evaluation on a salesman who "was an old maid and didn't do anything the P&G way—the correct way. The only thing he did right was sell a lot of soap."

Hanley's boss read the unfavorable report and asked Hanley about the man's sales results. Informed they were good, he then told Hanley to forget about the company system. "That was good advice," Hanley says. "It's good to have a system to start people with, but you've got to give them room to exercise their own individuality as long as it is directed toward the agreed-upon objective."

PHOTO: TOM EBENHOH—BLACK STAR

A desk-top computer terminal helps Hanley keep up to date on his firm's worldwide operations. Here he confers with two Monsanto communications experts, John Hussey (left) and Frank Stokes.

When Hanley took the Monsanto offer in 1972, he agreed to stay a minimum of 10 years or until successor management was ready. The decade is now up and Hanley, who will be 61 in January, is proud of his management team. He has no plans to retire soon, but he says that he "would be surprised if the board of directors and I don't conclude sometime before I'm 65 that it's time for a new CEO. I'm anxious to have that happen. People ought to get into these positions when they're still vigorous enough to be willing to make mistakes, learn from those mistakes and inject fresh ideas.

"I subscribe to the thought that most people have a finite reservoir of intellectual material to add to an enterprise and that when it's gone, it's gone. Then you have to put somebody else's reservoir to work."

WHAT WILL HE DO in retirement? "I'm going to be a student," he says. He plans to learn to play the organ "quite well"; to learn to speak a foreign language with more proficiency ("I speak something like six languages, including English, and none of them well"); to better cope with life away from an office by mastering the home computer, including programing; and to run a variety of businesses—his own ventures.

Jack Hanley is at peace with himself and has been for years. He gives much credit for this to meditation. He was one of the first major business figures to train in transcendental meditation. He meditates 20 minutes twice a day.

"It is during that time that I talk to my God," says Hanley, an Episcopalian.

When he is in St. Louis, the meditation takes place while he is in transit between his apartment and his office. When he is away on business, he meditates on a when-time-is-available basis—and the time has been known to become available in a limousine with members of his staff present.

Monsanto people are briefed to always be prepared to come up with coins when traveling with Hanley, who never carries change. Why doesn't he? Hanley smiles, reaches in his pocket and pulls out a silver cross. "Years ago a friend of mine gave this to me and said, 'Always carry this, and God will be with you.' I don't want to get it scarred, so I don't carry any metal in my pocket."

In addition to the apartment in St. Louis and one in New York City, the Hanleys, whose three children are grown, have two homes—in North Palm Beach, Fla., and Roaring Gap, N.C. The latter commands a fantastic view of valleys from an elevation of 4,000 feet and, like the Florida home, is part of a golf resort. Hanley, who plays to a 12 handicap, also is an avid fisherman and on frequent vacation trips to Africa studies wildlife in its natural element. His wife and children—two sons and a daughter—share his interest. Hanley's family, particularly his wife, is upset by any signs of his becoming a workaholic.

Recently at Roaring Gap, Hanley took a large shipment of office mail onto the sundeck for a few hours' work. He plunged into it with gusto. Until he was finished, his wife could be heard from time to time admonishing a houseful of grandchildren in a voice loud enough for Hanley to hear: "No, you can't go out there yet. You might disturb the great industry giant."

Jack Hanley tells this story and laughs. "I'm like the comedian Rodney Dangerfield," he says. "I don't get no respect!"

But he obviously does, at home and in the business world. □

To order reprints of this article, see page 81.

PHOTO: PAMELA PRICE—PICTURE GROUP

Over 2 million foreign-made vehicles are imported into America annually, but that number would drop sharply if the U.S. enacted a domestic content law.

American-Made Cars From Abroad?

Legislation urged as a spur to auto industry employment would boomerang, its foes say, resulting in heavy damage to our foreign trade.

IN THE mid-1960s, Florida officials persuaded Volkswagen of America to select Jacksonville as the port of entry for vehicles bound for U.S. showrooms.

Since then the city has skillfully nurtured the vehicle import trade, and today Jacksonville is the nation's leading gateway for cars and trucks built overseas. Some 600,000 vehicles are passing through it this year.

But Jacksonville's thriving auto import industry, which employs thousands, could go the way of the Studebaker if domestic content legislation now before Congress becomes law.

The proposals—H.R. 5133 and S. 2300—would require that vehicles sold in the United States contain specified percentages of American-made parts and labor. The requirement, phased in between 1983 and 1985, would range from 25 to 90 percent, depending on how many vehicles the manufacturer sold in this country.

The driving force behind the bills is the United Auto Workers Union, which says the plan would generate nearly 870,000 jobs. That figure is close to the current total of unemployed workers in the domestic auto industry and its supplier companies.

Theoretically, a domestic content requirement would give foreign manufacturers a choice of curtailing exports to the United States—which would boost sales of domestic products—or using substantial amounts of American-made parts and labor in their car production.

The latter option is not considered realistic. A spokesman for Japan's Nissan Company, which makes Datsuns, says of the domestic content proposal:

"It amounts to a quota bill because we certainly couldn't meet a 90 percent requirement. It would all but eliminate Nissan as a major factor in the American market."

The legislation would establish a formula gearing the required content of American-made parts and labor, averaged for a company's total American sales, to the number of cars that company sold in this country. In 1985 and thereafter, it would work like this:

- 500,000 or more vehicles, 90 percent American-made content.
- 200,000 to 500,000, 75 percent.
- 150,000 to 200,000, 50 percent.
- 100,000 to 150,000, 25 percent.
- Up to 100,000, no domestic content requirement.

Last year Toyota and Nissan sold more vehicles in the United States than any other foreign manufacturer—576,000 and 465,000 units, respectively. Honda sold 371,000; Volkswagen, 278,000; Mazda, 166,000; and Subaru, 152,000.

The legislation would have little, if any, immediate effect on domestic auto manufacturers since, in each case, their production meets the percentage requirements. However, it could deprive them of the option of seeking substantial quantities of foreign-made parts, if

they wanted to buy them to cut costs, or of importing large numbers of foreign-made cars for sale under their own brand names.

A manufacturer violating provisions of the proposed law would be subject to a 25 percent reduction in the number of vehicles or parts that it could sell in America in the model year following the violation.

Another House bill, H.R. 2478, would impose a fine of $2,000 per vehicle.

A COMMERCE DEPARTMENT official predicts that if the legislation passed, annual sales of foreign cars in the United States would be down to 900,000 in 1985—from 2.2 million last year—"wiping out the imported auto industry as we know it today."

In addition to businesses involved in auto import activities, the private sector generally opposes the UAW push for the bills. The Reagan administration is also strongly opposed.

"Proposals such as these are tempting—but dangerous," says Hilton Davis, vice president of legislative and political affairs for the U.S. Chamber of Commerce. He says passage of the legislation would do far more harm than good to the U.S. economy.

U.S. Trade Representative William E. Brock calls the domestic content bills "the worst threat to the international trading system and our own prosperity to be put before Congress in a decade."

Says Commerce Secretary Malcolm Baldrige, "In these times of difficult worldwide economic conditions, pressure to adopt protectionist-type legislation is intense, and if you add the fact that it's an election year, the pressure gets even stronger."

The UAW blames much of the auto industry's unemployment on imported cars and trucks, but in recent years sales of imports in the United States have actually been flat. During the first seven months of this year sales of both American-made vehicles and imports were down roughly 10.5 percent.

There is widespread skepticism about the UAW's high employment expectations. For instance, the Congressional Research Service estimates that a maximum of 275,000 jobs would result from domestic content. But, it says, the gain would be eliminated because of the people who would be laid off in other areas as a direct consequence of the legislation.

Hit hard would be the U.S. facilities that handle, distribute and transport imported cars and trucks—businesses such as those in Jacksonville. An estimated 2,000 foreign car dealerships would close, says Robert McElwaine, president of the American International Automobile Dealers Association.

Internationally, the most damage would result from violating the General Agreement on Tariffs and Trade, which specifically prohibits domestic content requirements.

GATT signatories could be expected to seek compensation for loss of more than $15 billion annually in exports to the United States, say Commerce Department officials. Failure to meet those claims would invite retaliation against U.S. exports. The most likely targets would be commercial aircraft, electronic components and agricultural commodities, affecting thousands of jobs. "It would be the start of a major trade war," says Michael Driggs, deputy assistant secretary for automotive affairs at the Commerce Department.

Adds Secretary Baldrige, "You can't make international trade policy in a vacuum. Decisions made in one sector affect many others, and domestic content is no different."

The average percentage of U.S. parts and labor going into U.S. cars is so high that the proposal would have little impact on their makers. The scene: a GM plant.

Government and private studies indicate that the direct cost to American consumers would be a 10 percent increase, or an average of about $1,000, on new imported cars and that the consumer price index would increase about three tenths of a percent.

Total cost to the American economy in jobs and exports, it is said, would be between $3 billion and $5 billion in 1985, the year the law would be in full force. Costs could be expected to mount in subsequent years as well.

But Richard Warden, the UAW's Washington legislative director, says that the supposed drawbacks to imposing domestic content requirements, such as triggering a trade war, are "pure speculation." The administration's arguments "are made of whole cloth," he says. "Our forecasts, including the number of jobs it would create, are backed up by careful analyses."

Business leaders point out that the legislation ignores the auto industry's efforts to revitalize its international competitiveness through a $65 billion investment program. The chief cause of the American industry's problems, they argue, is not imports but weak consumer demand. The solution, they say, lies in across-the-board economic recovery.

COMPETITIVE PRESSURES from foreign manufacturers, says V.J. Adduci, president of the Motor Vehicle Manufacturers Association, are most evident in the cost advantage gained from producing a car or truck overseas compared with making it here. For Japanese cars, it is between $1,000 and $1,700, he says. One major reason is that wages and benefits for American autoworkers are more than double those in Japan and 50 percent higher than those in all other U.S. manufacturing industries, according to the Congressional Research Service.

Opponents' strategy is to try to slow domestic content legislation in order to delay floor voting on the bills until after the fall elections. Congressional support, although substantial, may not be all that it appears on the surface. Privately, many congressmen acknowledge the danger that domestic content poses to U.S. trade policy.

It would put this country in an untenable position, say congressional and administration sources, since the administration is negotiating throughout the world to secure trade liberalization measures by other countries, especially Japan and some Western European nations.

"If Congress passes legislation that specifically violates international trade agreements, where does that put America in insisting that other nations abide by established trade laws?" asks Secretary Baldrige. □

—Tony Velocci

Happy Warrior In the Labor Law Battles

A look at a formidable fighter for business: He has timing, toughness and a lot of tact.

WHEN a Senate subcommittee on labor law took up the issue of abolishing the mandatory retirement age, Robert T. Thompson was on hand to testify in opposition that such a step would represent "a broad leap into the unknown."

When a House Judiciary subcommittee considered major changes to immigration laws, he was present to oppose as "ineffective, unworkable, unreasonably burdensome and unduly expensive" provisions that would penalize employers of illegal aliens.

And when the Senate Judiciary subcommittee on criminal law looked into violence as a weapon in labor disputes, he testified that "no collective bargaining objective justifies violence that threatens life or property."

Thompson is one of the leading representatives of the business community on labor-management issues before Congress, the regulatory agencies and the courts. As chairman of the labor law committee of the U.S. Chamber of Commerce, a voluntary, nonpaid job, he is at the center of some of the hardest-fought battles business wages in the national capital.

One of Thompson's biggest challenges, for example, was an all-out effort by organized labor in 1977 to win passage of legislation that would have made it easier for unions to organize workers and harder for employers to resist those efforts.

The bill had won approval in the House, Senate passage appeared certain and President Carter was waiting to sign the measure as soon as it reached his desk.

Most business lobbyists on the issue conceded that the AFL-CIO had won a significant victory. But Bob Thompson refused to give up. "The Chamber was willing to fight," he says.

Thompson felt one tactic offered a means of turning the situation around—a filibuster by senators opposed to the legislation. He pulled together a coalition of business organizations and individual firms to make an 11th-hour stand.

The filibuster worked; the bill did not come to a vote. But that was not the end of the battle—it lasted for two more years and three more successful filibusters before the bill died. Thompson, who is happiest when he is in a good fight, spent a great deal of time away from his practice and responsibilities as a senior partner in the law firm of Thompson, Mann & Hutson, headquartered in Greenville, S.C.

"He has outstanding instincts on issues and politics," says one associate. Echoes another: "He has terrific timing. He always seems to know the right time to move."

This tough persuader is also a diplomat. He has gained the admiration of his peers for his ability to bring together disparate business factions for a common cause. And he makes it look easy.

To listen to Thompson speak, you would never guess he had anything but Southern roots, but he confides with a twinkle in his eye that he was "born a Yankee." It seems he appeared on the scene ahead of time when his mother was visiting in Illinois 52 years ago. He grew up in Columbus, Ga., where his father worked for the Central of Georgia Railroad.

Labor unions have found to their sorrow that there is nothing Robert T. Thompson finds more enjoyable than a good contest.

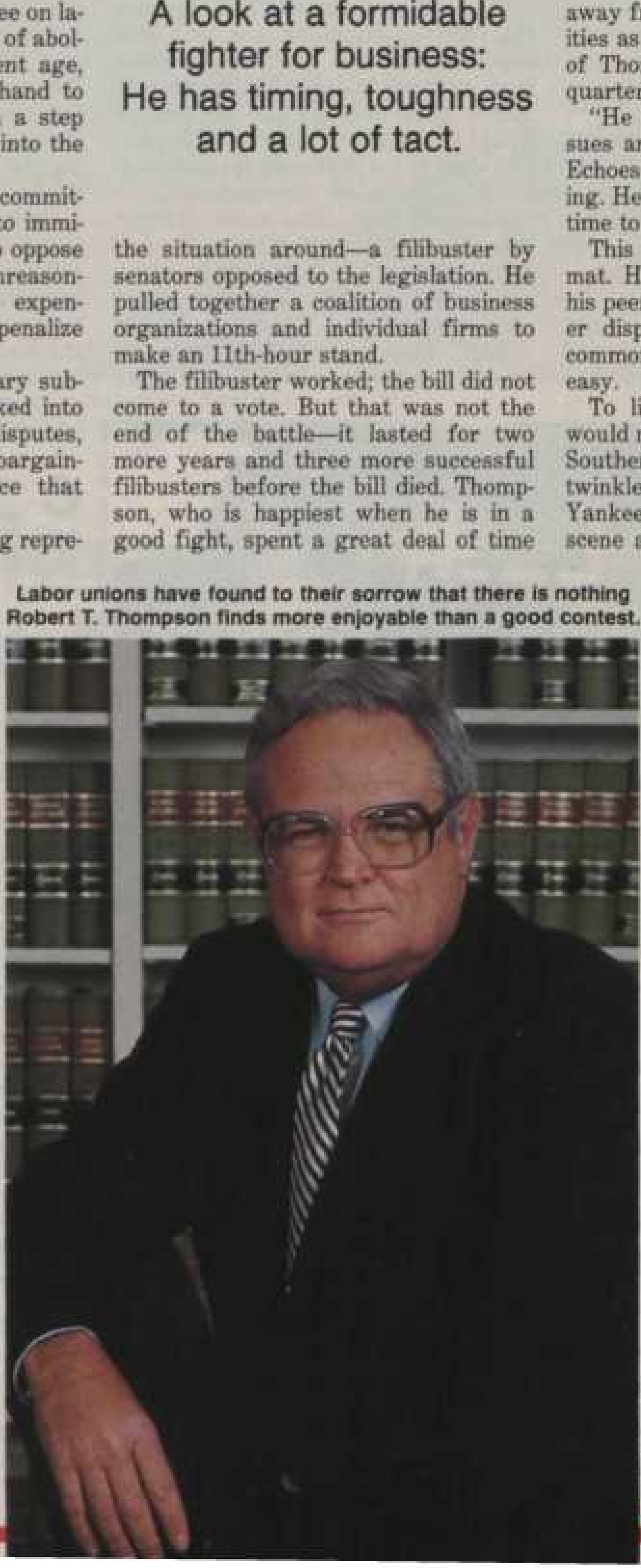

PHOTO: BOB BURGESS

Acquaintances say that despite his soft drawl and rather courtly Southern ways, he is really a Yankee masquerading as a Southerner. Thompson replies to that with a laugh: "I guess I'm a bit of both."

The affable lawyer stands well over 6 feet and still has the powerful build he had when he was Georgia's 1946 all-state high school football end. He made every team at his school in Columbus. Athletic scholarships came his way, but he passed them up: By his senior year he had decided to become a lawyer and figured he would not have time for college sports and law studies.

Thompson took prelaw at Emory University and then entered the law school. He cofounded the university's *Administrative Law Journal* and served as editor-in-chief of the *Emory Law Journal*.

After graduation in 1952,

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he joined Wilson, Branch & Smith, an Atlanta firm. One partner, John Branch, was active in the U.S. Chamber and represented business at the International Labor Organization. The young lawyer accompanied Branch on his frequent trips to Washington, and in 1962 Thompson became a member of the Chamber's labor law committee.

For the past eight years he has been chairman of the committee, and two years ago he was elected a Chamber regional vice chairman.

Thompson formed his own firm in Atlanta in 1964 and now has offices not only there but also in Greenville, Spartanburg and Columbia, S.C.; Greensboro, N.C.; and Washington.

Two of his three sons are among the firm's 43 attorneys, who offer legal services on labor and employment to a blue-ribbon list of clients: Fluor, Milliken, J.P. Stevens, Armstrong World Industries, Campbell Soup and Borden, to mention a few. Over the years the firm has represented Exxon, General Motors, General Electric, Phillips Petroleum, Mapco, Standard Oil of Indiana, Kerr-McGee, Allied Corporation, Control Data, Goodyear, Dart Industries, Babcock-Wilcox and Rockwell International.

Thompson's law practice requires that he travels a lot—about 60 percent of the time. He has apartments in Atlanta, New York and at the Watergate in Washington.

In Washington, when the weather is good, he walks from the complex on the banks of the Potomac to his office, which is located only blocks from the White House, the U.S. Chamber building and the headquarters of the AFL-CIO. Walking and tennis are his major forms of exercise.

Thompson's primary home is a stately colonial on 50 acres in Greenville; other homes are in Bal Harbour and in the mountains of North Carolina.

HE OFTEN IS a Chamber witness before congressional committees, a task he has performed nearly 50 times in 20 years. He is considered an effective witness because he isn't intimidated by anyone, and when baited, he refuses to lose his composure. His answers are sometimes trenchant but delivered with a smile. "One of his great talents is his ability to communicate with people at any level. He explains his position in easy-to-understand language, and like all good lawyers he stays in control of the situation," says a colleague.

Of all the changes Thompson has witnessed in his years on the Washington scene, the one that gratifies him most is business' growing activism and participation in the decision-making process.

The result has been a more representative Washington, he says. "We now have a diversity of power centers, and power is exerted carefully. I don't see any arrogant exercise of power. Even the President, powerful as he is, is limited in what he can do."

Besides a grass-roots response to overwhelm a congressman's telephones or flood his office with bags of mail, Thompson emphasizes the need for steady pressure from key people in a representative's district or a senator's state.

But Thompson worries that with Ronald Reagan as President, the Senate under Republican control and the House more conservative than it has been in many a year, business may become apathetic. "There are all kinds of bills that could be very damaging to business," he warns.

An example: the controversial bill on immigration, passed by the Senate, which would place the responsibility for determining citizenship with the employer and impose heavy fines for failure to do so. The U.S. Chamber opposes that part of the bill, which is still pending in the House, and Thompson has testified on behalf of business.

Thompson is hopeful that needed reforms will be made to the National Labor Relations Act and to legislation governing the Equal Employment Opportunity Commission and the Occupational Safety and Health Administration, but he doesn't see any action in this Congress. "Right now we're almost in a stalemate," he says. "The unions can't get anything passed, and we can't either."

Before the elections two years ago, Thompson announced to a group of top business executives that he would devote 50 percent of his time to getting probusiness candidates elected. If any of the executives devoted 100 percent of his time, he challenged them, he would do the same.

"I didn't get any takers in 1980," Thompson says. "But the offer is still open." □

—Grover Heiman

"He explains his position in easy-to-understand language, and like all good lawyers he stays in control of the situation."

JOURNALISTS' COMMENTS ON COMPANIES

How the Media Would Set Your Priorities

ILLUSTRATION: TONY FITCH

IF YOU ASKED business people to list major responsibilities of U.S. corporations, making an adequate profit would probably lead all the rest.

Journalists have a different perspective. Those taking part in an Opinion Research Corporation poll cite most frequently two activities that involve government regulation—ensuring safety on the job and curbing pollution.

The poll was part of an ORC survey of business and the media. The survey—the latest in a series dating back to 1962—covered a sampling of journalists on the staffs of newspapers, magazines, radio and television stations, and wire services.

Most of those polled specialize in business and financial news.

Among other findings:

An overwhelming majority (88 percent) say large companies are essential for the nation's growth and expansion, but a smaller group (55 percent) agree with the view that profits of large companies make things better for everyone.

The credibility of small business proprietors is rated excellent or good by 71 percent of the journalists; the credibility of chief executive officers of corporations is given that rating by 50 percent of those polled. Other occupational categories: Representatives of environmental groups have excellent or good credibility in the eyes of 42 percent; labor union leaders, 19; federal government officials, 17.

On a 0-to-7 scale measuring the degree of trust and confidence they have in various institutions, the journalists assign a high of 5 to colleges and universities and a low of 3.2 to labor unions. Small companies receive a mark of 4.6 and large companies, 4. The journalists give their own profession a 4.7.

Nearly two thirds of those polled think small businesses should have more influence in political campaigns and government decisions, but only 5 percent think large companies should have more influence. Only 3 percent think small companies should have less influence, but 43 percent think large companies should have less.

To obtain journalists' views of corporate responsibilities, ORC listed activities and asked the respondents to indicate those they considered most important. These are the results, by percentage of journalists who say the activity is a major corporate responsibility:

- Provide a safe work environment, 95 percent.
- Keep the environment clean and free from pollution, 92 percent.
- Keep high ethical standards, 86 percent.
- Pay stockholders a reasonable return on their investment, 82 percent.
- View the company in terms of long-range development rather than short-term profits, 77 percent.
- Retain adequate earnings to expand capacity and create additional jobs, 75 percent.
- Improve productivity of existing plants and factories, 75 percent.
- Satisfy customer needs at reasonable prices, 74 percent.
- Make corporate decisions with social responsibility in mind, 74 percent.
- Provide customers with product-related information, 71 percent.
- Hold down costs, 67 percent.
- Compete effectively with foreign companies, 60 percent.
- Hire and train minorities, 57 percent.
- Replace out-of-date plants and equipment, 53 percent.
- Hire and train the disadvantaged, 53 percent.
- Provide rewarding and satisfying jobs, 51 percent.
- Find and develop additional sources of energy, 51 percent.
- Contribute money to support education, cultural affairs, health and charities, 50 percent.
- Develop new products to improve the nation's living standard, 44 percent.

Although 95 percent say providing a safe working environment is a major responsibility, only 52 percent think most big companies are doing a first-rate job in this respect.

And only 15 percent say they think corporations are doing that good a job on preventing pollution, compared with the 92 percent who list that as a major responsibility.

Just over 60 percent of the journalists say companies are doing a first-rate job in paying stockholders a reasonable return on investment. □

Bad News for Labor Racketeers . . .

PHOTO: WIDE WORLD

Present efforts to curb corruption among union leaders date back to the 1950s and a committee chaired by Sen. Estes Kefauver (third from right at rear).

THE CHARACTERS change, but it is the same old story, and a disturbingly frequent one. It was recited again a few months ago. A Labor Department official told a Senate committee about the activities of a labor union official, this one a Floridian.

As president of one local, manager of another, president of a district labor council and trustee of a workers' benefit plan, he had access to union workers' funds and embezzled from six labor organizations. Although convicted, he remained in office pending appeals and siphoned off another $1 million.

Congress now seems determined to close off such opportunities. The vehicle is the Labor-Management Racketeering Act. Already passed unanimously by the Senate, it will be taken up this fall by the House Education and Labor Committee. The bill's sponsor, Sen. Sam Nunn (D-Ga.), says it is a signal to "organized crime and corrupt union leaders that Americans will no longer tolerate" criminal influence and activity in organized labor.

In effect, the bill would amend three existing acts—the Labor-Management Reporting and Disclosure Act, the Labor-Management Relations Act and the Employment Retirement Income Security Act.

A key provision would provide stronger incentives for unions to purge criminal elements from their ranks. For example, it would be a felony instead of a misdemeanor for employers and unions to engage in payoffs or kickbacks and for a union or workers' benefit fund to hire or employ a convicted criminal.

In addition, the bill doubles to 10 years the period during which a criminal is disqualified from employment with such organizations after conviction or imprisonment.

The bill extends the disqualification to all positions with a union or benefit fund by eliminating the current exemption for "clerical" or "custodial" employes. Thus unions could no longer employ otherwise disqualified criminals as highly paid "clerks" or "custodians."

To prevent convicted criminals from continuing to work for unions or trust funds during lengthy appeals, the bill provides that disqualification for conviction begins on "the date of the judgment of the trial court," regardless of whether the judgment is appealed.

The bill would, however, protect the interests of an individual whose conviction is overturned. His salary would be placed in escrow upon his conviction. If the verdict is reversed, the individual is paid the accrued salary; if the verdict is upheld, the funds are restored to the union.

LABOR DEPARTMENT attitudes would be important to the success of such legislation. The department's role in investigating organized crime within unions in years past—specifically, its reluctance in some instances to initiate probes—has been criticized.

The bill therefore amends previous acts by assigning not merely the authority to investigate but also the responsibility.

"That provision," says Nunn, "is directly responsive to the many witnesses who, during our hearings, testified that the Department of Labor [in the past] had failed to act against labor racketeering.

"And we heard from both federal prosecutors and the FBI that the Department of Labor had taken no role in the [government's] fight against criminal corruption on the New York/New Jersey waterfront."

That fight with the International Longshoremen's Association, dating back to the 1950s, was the genesis of the present bill. At the time the nation was shocked by revelations of massive kickbacks and payoffs to Longshoremen's union leaders uncovered by the Senate crime committee chaired by the late Sen. Estes Kefauver (D-Tenn.). The late Sen. John L. McClellan (D-Ark.) later made a stir as chairman of the Senate Permanent Subcommittee on Investigations when it exposed criminal activities by Teamsters union officials.

ACCORDING TO Sen. Don Nickles (R-Okla.), one of the cosponsors of the bill, the fact that corruption has existed within labor's ranks for so many years is due in part "to the enactment of laws that seem to encourage crime." The fact that a convicted union official has been able to remain in office until appeals are exhausted is one example.

"It is time that we change the course of this country's labor laws—time that the laws reflect the high standards Americans expect of us," Nickles says.

In a letter to Nickles, the Justice Department put its weight behind the bill. It wrote:

"Recent convictions involving labor-management corruption on the waterfront and in other industries have demonstrated the continuing need for strong federal legislation to deter the use of extortion, bribery and payments involving conflicts of interest among the parties to collective bargaining."

According to Sen. Warren B. Rudman (R-N.H.), a former attorney general in his state, "Larceny, sabotage and labor disruption have become so prevalent in some union areas that they are included as part of the cost of doing business."

Labor Secretary Raymond J. Donovan has assured the Senate Labor and

PHOTO: WAYNE PARTLOW

Sen. Sam Nunn (D-Ga.) believes that unions need the help of Congress to rid themselves of corruption.

. . . and good news for union members is a Senate-passed bill that awaits action in the House.

PHOTO: WAYNE PARTLOW

The Senate antiracketeering bill, says Sen. Don Nickles (R-Okla.), is a long-awaited change in the course of this country's labor laws.

Human Resources Committee that his department would do what was expected of it:

"Our department has an unwavering commitment to protect workers and benefit plan participants. We will use every tool presently available to us to safeguard the integrity of labor organizations and benefit plans . . . and we would welcome the additional tools that would be given by the proposed legislation."

The bill would require Donovan's department to investigate abuses of a criminal, not merely a civil, nature. This section of the bill has been opposed on the ground that it encroaches on the crime-fighting authority of other federal investigative and prosecuting agencies. To allay concerns, the bill says that nothing in it should be construed as precluding other agencies from conducting their own probes into both civil and criminal violations.

One aspect of the bill that is due for scrutiny by the House is the proposed immediate disqualification of union officers on conviction. Considering that punishment would be meted out before appeals have run their course, the proviso raises "troubling civil liberties issues," says AFL-CIO President Lane Kirkland.

Two other portions of the bill also concern Kirkland. One is a section referring to employer contributions to union-managed trust funds. Kirkland explains that a union official can make an honest error "that has nothing to do with under-the-table employer payment" and that he fears the section's misapplication.

Kirkland also contends that the 10-year disqualification from office could be too severe. "I can't persuade myself that all cases are alike," he says. He has suggested that trial judges be authorized instead to impose disqualification periods of not more than 10 years at the time of conviction.

DESPITE THESE reservations about the bill, Kirkland has endorsed it. His endorsement, he says, stems from organized labor's recognition that it "simply does not have the resources—the trained manpower, the subpoena, the grand jury, the authority to uncover and punish perjury, the due process trial procedures . . . and the effective sanctions to punish the guilty."

Understandably, Kirkland feels the bill puts the spotlight too harshly on union officials. "Unlike bankers, businessmen and politicians, union officers are judged according to their worst examples," he told the senators.

Nunn believes that the bill does not harass organized labor but provides the extra assistance needed for unions "to finally rid themselves" of corrupt officials. "The unions have labored to rid themselves of these people," the senator says, "but in many cases they have been unable to do so alone. I believe the unions need the help of Congress." □

—Del Marth

PHOTO: GEORGE TAMES

Organized labor does not have "effective sanctions to punish the guilty" on its own, says AFL-CIO President Lane Kirkland.

The Parties Really Do Part Company

Are the Democrats and the GOP two peas in a pod? Far from it, a survey indicates.

PHOTO: MICHAEL J. PETTYPOOL—UNIPHOTO

GEORGE WALLACE argued that "there isn't a dime's worth of difference" between the Republican and Democratic parties.

John Anderson based his independent campaign for the presidency on the contention that both parties were locked into "outdated ideas."

Third-party and independent candidates have appeared on the political scene through much of the nation's history to argue that the major parties of the day deprived voters of a clear-cut choice on issues. How valid is that argument today? Not very, according to a study by the Center for Political Studies, part of the Institute for Social Research at the University of Michigan. The study covered delegates to party conventions in 1972, 1976 and 1980. It found "cleavages" between Democratic and Republican delegations that "reflect a fundamental and persistent difference" in the two parties' ideological orientations.

For example, GOP delegates to all three conventions were virtually unanimous in favoring higher defense spending, lower inflation despite the risk of increased unemployment, and neighborhood schools.

Among Democrats, however, only pluralities favored lowering defense spending and reducing unemployment even if it meant higher inflation, the study shows. And Democrats were sharply divided on the neighborhood school issue.

Other major findings of the study:

- Though there is some indication that 1980 Democrats were more conservative than their 1972 counterparts, the change was not pronounced. On the other hand, researchers note, "there has been a noticeable shift toward the right in the Republican camp."
- Republicans tend to join professional organizations and service clubs; Democrats are more likely to be members of labor unions and public-interest, women's, ethnic and environmental groups.
- Democrats are more dissatisfied than Republicans with the present presidential nominating system, although the Democrats' views "may be due to the cumulative misfortunes of the party during this eight-year period."
- More so than Democrats, Republicans place greater importance on party work compared with their involvement in other organizations.
- The numbers of women, blacks and young people among Democratic delegates shifted significantly as quotas were imposed, removed and, in the case of women, reimposed. The composition of Republican delegations with respect to sex, age and race was unchanged over the same period.

Though the extent of their criticism of the presidential nominating process differed, Democrats and Republicans shared some of the same complaints.

Both groups cited the timing and duration of presidential campaigns, the influence of the media and "the negative impact of special-interest groups" in the selection of candidates.

Among recommendations for improvements: a shorter primary season, regional rather than state primaries and eventually a national primary.

To gauge the relative ideology of delegates, each was asked by the researchers to designate his or her position on a liberal-conservative spectrum.

Though there was little change in Democrats from 1972 to 1980, the percentage of Republicans who designated themselves as conservatives rose from 69 to 83 over the same period.

One reason for the shift, the researchers say, "may be the types of candidates who have dominated party politics during this eight-year period and have brought different types of supporters into the nominating conventions." Whatever the explanation, they add, "these results also fit the oft-discussed shift toward the right in the electorate."

The Center for Political Studies began its study of the political party system in 1972 with funding from the Russell Sage Foundation and the Twentieth Century Fund. Data were obtained from nearly 1,500 delegates. Last year data were obtained from delegates to the 1976 and 1980 conventions, and new information was developed on 1972 delegates.

Third-party and independent presidential candidates have had varying degrees of impact on the election process over the years.

Neither Anderson nor Wallace drew enough votes to affect the outcome of the elections in which they ran.

In 1912, however, Theodore Roosevelt's Bull Moose Party pulled enough Republican votes from William Howard Taft to make Democrat Woodrow Wilson the winner. In 1860, proslavery Democrats nominated their own candidate rather than support the official party nominee, Stephen Douglas, and Republican Abraham Lincoln won. □

The Senate's Housing Boom

When the Senate refused in early August to consider a bill that would have eliminated a $736,400 gymnasium planned for its new office building, a flap ensued that might well have sent some solons searching for a soothing rubdown.

Members voting to table the proposal held that it had been brought up in violation of established Senate procedures and hence was out of order.

But the parliamentary nuances were overlooked in the flood of news reports that the Senate, which already has two gyms for its 100 members, had refused to give up a third. Editorialists and other commentators opposed spending taxpayers' money on the gym at a time when Congress was slashing programs to aid the poor and demanding generally that the public tighten its belt.

A week later, the Senate voted unanimously to eliminate the gym.

Introducing the bill to terminate the dispute by terminating the gym, Majority Leader Howard Baker declared, "We're going to kill this snake once and for all."

The flare-up over the "snake" was not the first involving the office building. The structure was first proposed a decade ago as a $48 million extension of one of the two existing Senate office buildings. The final version, which will be ready for occupancy next month, is a separate, nine-story structure that will cost nearly $138 million—making it the most expensive federal building ever. That figure might have gone much higher if the House, which had an equal voice with the Senate in appropriating money for the building, hadn't put its foot down.

By 1978 the estimated cost was up to $135 million, but the House refused to agree to provide more money. When the issue was raised the following year, the estimate was up to $175 million. The Senate agreed to scale plans back to $142.6 million, which would still have allowed for a rooftop restaurant and wooden paneling for senators' offices.

But, with some members arguing that the Senate wanted to build itself a palace, the House stood on the $137.7 million ceiling now in effect.

(Some senators grumbled privately that it was a pot-and-kettle situation. They pointed out that several years ago the House had built a third office building at a cost of $135 million that had more purchasing power than the Senate's $138 million.)

To keep within the level finally agreed on with the House, the Senate eliminated the paneling and the rooftop restaurant. The action reflected concern over public opinion rather than costs.

Despite the maneuvering over expenses, the third Senate office building as completed is far from austere. It is a modernistic structure of white marble with an atrium assuring natural light for inner offices. There are suites for 50 senators, each with 5,700 square feet of space, compared with 2,400 in the existing office buildings. Senators' offices will have 16-foot ceilings; quarters for aides will be duplex affairs with 8-foot ceilings.

Offices will be offered to Senate members on a seniority basis. When the moving is complete, offices in the existing buildings will be expanded.

The new building is named for the late Sen. Philip Hart (D-Mich.), who served from 1959 to 1976. The first Senate office building was completed in 1909 at a cost of $8.4 million and the second in 1958 at a cost of $24.2 million. They are named, respectively, for the late Sen. Richard B. Russell (D-Ga.) and the late Sen. Everett McK. Dirksen (R-Ill.), two of the dominant figures in recent Senate history.

Although critics of the third building condemn it as excessively lavish, supporters say it does no more than provide a suitable working atmosphere. Those who endorsed the plan for the building point out that, in addition to senators' offices, existing structures provide space for committees and subcommittees, hearing rooms and various support services. They say that senators' and committee offices have been overcrowded and note that many staff members have been scattered in former hotels and other structures on Capitol Hill, with resulting inefficiencies.

Those who criticized the plan doubt that productivity will be hindered in the new building by the lack of a gym, a rooftop restaurant, wooden paneling or one more amenity that has been scrapped—a $300,000 mobile that was to have been suspended above the pink marble floor of the atrium. □

Saving Social Security

A bipartisan commission is getting ready to make recommendations on what is still definitely a partisan issue.

PHOTO: WAYNE PARTLOW

Chairman Alan Greenspan must reconcile opposing views of reform panel members.

A LOW-KEYED television commercial giving President Reagan credit for a cost-of-living increase in Social Security checks touched off a violent political storm in midsummer. Democrats howled that the boost resulted from an automatic escalator plan enacted years ago and that Reagan had nothing to do with it. The GOP stood on the claim that the increase would not have gone into effect without the President's support.

It was a clear example of how hot a political issue Social Security remains despite continuing attempts to find bipartisan solutions to its critical financial difficulties.

The latest such effort centers on the National Commission on Social Security Reform, named last year to find ways to keep the system from going broke. The bipartisan panel was appointed after a few early skirmishes involving the President and Congress showed that a political impasse was likely until after the 1982 congressional elections.

The commission was ordered to report its recommendations by December 31, a deadline safely beyond the election. At this point the panel is expected to recommend:

- Modification of the automatic cost-of-living adjustment, which has been an important factor in the system's deteriorating financial condition.
- An increase in the retirement age,

Roster of Would-Be Rescuers

These are the members of the National Commission on Social Security Reform.

Appointed by President Reagan:

ALAN GREENSPAN, chairman and president, Townsend-Greenspan and Company, and former chairman of the Council of Economic Advisers. He is chairman of the commission.

ROBERT A. BECK, chairman and chief executive officer, Prudential Insurance Company of America.

MARY FALVEY FULLER, consultant and former vice president-finance, Shaklee Corporation.

ALEXANDER TROWBRIDGE, president, National Association of Manufacturers.

JOE D. WAGGONNER, JR., consultant, Bossier Bank & Trust Company, Bossier City, La., and a former member of Congress.

Appointed by Senate Majority Leader Howard Baker in consultation with Senate Minority Leader Robert Byrd:

SEN. WILLIAM ARMSTRONG (R-Colo.), chairman of the Senate Finance Committee's subcommittee on Social Security.

SEN. ROBERT DOLE (R-Kans.), chairman of the Senate Finance Committee.

SEN. JOHN HEINZ (R-Pa.), chairman of the Senate Special Committee on Aging.

LANE KIRKLAND, president, American Federation of Labor-Congress of Industrial Organizations.

SEN. DANIEL P. MOYNIHAN (D-N.Y.), senior minority member of the Senate Finance Committee's subcommittee on Social Security.

Appointed by House Speaker Thomas P. O'Neill, Jr., in consultation with House Minority Leader Robert Michel:

REP. BILL ARCHER (R-Tex.), senior minority member of the House Ways and Means Committee's subcommittee on Social Security.

ROBERT M. BALL, visiting scholar, Center for the Study of Social Policy, University of Chicago, and Commissioner of Social Security, 1962-73.

REP. BARBER B. CONABLE, JR. (R-N.Y.), senior Republican, House Ways and Means Committee.

MARTHA E. KEYS, former member of Congress, former assistant secretary of Health and Human Services.

REP. CLAUDE D. PEPPER (D-Fla.), chairman, House Select Committee on Aging.

probably to 68 from the present 65, phased in over several years.

- Mandatory coverage for government workers, including nearly 3 million federal employes who neither pay into nor collect from the system.
- A reduction in replacement rates—the percentage of wages on which Social Security benefits are calculated.
- Payroll tax increases either through new taxes or advancement of boosts scheduled to take effect in 1986 and 1990.

THE COMMISSION has also looked at the question of general revenue financing to shore up the system, although there is no indication at present as to whether any such formal recommendation will be made.

There are two views in Washington on the commission's ability to become the catalyst that finally brings about effective congressional action on the mounting difficulties of the retirement/survivors'/disability system.

One school holds that the commission is just another in a long line of panels that have recommended ways to put Social Security on a sound financial footing. Proponents of this school maintain that the answers to the problem have long been obvious but that Congress has been reluctant to take the most important step—slowing the growth of benefits—out of fear of political reprisals. They argue that the recommendations of this latest commission will simply be added to those of all the predecessor groups.

Another school, however, argues that Congress has run out of time on the issue and must face up soon to the choice between drastic action and a bankrupt system. The stopgap measures employed in the past just won't do the job this time, these observers insist. The urgency of the problem is conceded by all involved. The largest and best-known aspect of the Social Security system, benefits paid to retirees and dependent survivors of deceased workers, will go broke next July unless remedial action is taken.

The advisory commission is a highly varied group, covering the full range of the political spectrum. Its chairman is Alan Greenspan, a prominent, conservative economist who has served as chairman of the Council of Economic Advisers and has been a private-sector leader in support of President Reagan's economic program.

Inasmuch as President Reagan appointed Greenspan to chair the commission, there has been a widely held view that he is there to uphold the Reagan philosophy. However, Greenspan has maintained a low profile and has given no indication that he views his role as forcing any particular point of view on the panel.

Under his direction, the commission and its staff have done a vast amount of original research.

Panel members also include Rep. Claude D. Pepper (D-Fla.), who is chairman of the House Select Committee on Aging. He has been a leading advocate of government programs for the elderly and generally an opponent of any efforts to roll back Social Security benefits.

The broad outlines of the forthcoming battle over Social Security reform have already begun to develop in Congress and will become more defined when the commission makes its recommendations.

ONE VIEW IS that the problems of the system are not as extensive as often portrayed and can be resolved through relatively minor adjustments that would preserve the present level of benefits, with its built-in escalator for cost-of-living increases.

Some advocates of that viewpoint argue for general-revenue financing—the use of income and other tax resources in addition to the payroll taxes that have been the exclusive support of the Social Security system since it was established in the mid-1930s.

The other view holds that Social Security cannot survive without fundamental changes that recognize the economic and social shifts of past decades, putting ever-increasing financial pressure on the system.

Private-sector experts contend that a $277 billion tax increase Congress voted in 1977 to resolve the system's financial problems has not yet taken full effect but has already proven inadequate.

Mark Cahoon, specialist on Social Security issues for the U.S. Chamber of Commerce, points out that under present law the maximum amount in Social Security taxes employers and employes will be paying by 1985 will be more than $3,000 each.

He notes that Social Security taxes have increased 2,011 percent over the last 30 years, compared with increases of 490 percent in average wages and 594 percent in federal income taxes.

Cahoon says, "For Congress to try to solve Social Security's financial problems through an additional tax increase would make an already excessive tax unbearable for many workers."

For some members of Congress, however, the tax increase route may appear preferable to curtailing benefits to a growing elderly population that is fast becoming a major political bloc.

Other members will argue that the era of soaring benefits fueled by an ever-expanding economy is gone. In their view, Congress must henceforth concentrate not on the amount of largess it will confer, but on how it is going to pay the bills. □

Social Security Payments

(In billions of dollars)

1970	1975	1980	1985*	1990*
$38	$80	$156	$280	$503

Social Security Tax

Year	Maximum Salary Subject To Tax	Amount Paid By Employer And Employe
1970	$ 7,800	$ 374
1975	14,100	825
1980	25,900	1,587
1985*	42,600	3,003
1990*	60,600	4,635

*Amounts for these years are estimates.
Source: Social Security Administration

Is there a future for individual investors in America's stock market?

William Freund and Jude Wanniski voice their opinions

Recently, more individuals have been investing in the stock market, but they've been investing less. What will the future hold? That is the topic of the following Looking Ahead report — another in a series focusing on issues critical to business.

An Optimistic View

Dr. William C. Freund
Senior Vice President
and Chief Economist,
New York Stock Exchange

Is there a future for individual investors in America's stock market? A resounding *yes*.

But success depends in large part on the individual's perception of his relationship to the market. Too often an individual sees the market as an overwhelming or mysterious force run by huge institutions.

This attitude of "market as adversary" overshadows the very real financial and psychological benefits offered by individual involvement in the market.

Why is individual shareownership desirable? It gives each of us our own direct stake in our economic system. It works to diffuse economic power to help keep our competitive system responsive to the majority of the population. It helps unify "owners" and "workers" in the common goal of intensifying productivity growth for the economic good of all.

Boosting productivity

The last point is particularly significant. Currently, this country is in a productivity slump which impairs our ability to compete domestically and in world markets. Recent New York Stock Exchange studies indicate the importance of boosting productivity growth. And one way of accomplishing this is to eliminate the wall which now seems to exist between management and labor. A key to destroying the barrier is individual involvement in the market, for employees can then assume a direct equity interest in the companies they work for as well as American enterprise in general. They, in short, join management through their association in the market. The economy as a whole, as well as the individual investor, will be well served by such a move. The U.S. needs unprecedented amounts of new equity capital to help finance the renewal and modernization of its business plants and equipment. Through increased equity investments, individual investors can help launch a new era of capital formation, rising productivity, and real economic growth. If

that happens, millions of individuals should reap the rewards of investment in stock.

Toward this end, the New York Stock Exchange does everything in its power to assure that the rights of individual investors are at all times protected. For example, on the Exchange, an individual's order to buy or sell at a specific price has the right to participate in even the largest transactions by institutional investors. Through close regulation and surveillance of the marketplace, we do our best to see to it that nobody — individual or institution — trades on the basis of inside information.

Clearly, there is a need for the individual investor in the stock market. And more people are investing in stocks, especially at younger ages. That is a strong vote in favor of the proposition that there *is* a future for individual investors in America's stock market.

Strengthen Dollar First

Jude Wanniski
President, Polyconomics

Over the past decade, the stock market was a downright dangerous place for people to put their savings. A hundred dollars invested in stocks was worth, on average, only $54 nine years later after correcting for inflation. In the decade ahead, the stock market may become a delightful place to be, but only if our government changes its policy toward our American dollar.

The stock market, after all, is by far the best gauge of the health of the national economy. And the entire dollar economy, worldwide, got off the track a little more than ten years ago because of a drastic change in the government's policy toward our currency.

Specifically, President Nixon on August 15, 1971, ended the government guarantee that the dollar would be worth a specific amount of gold. The change was based on the notion that by devaluing our currency, we could buy fewer goods abroad and sell more American goods in the export market, thereby increasing the number of jobs for American workers.

The real effect was to damage the dollar as a standard of value. Its price, in real goods, has fluctuated dramatically, first with the worst inflation in our history, now with one of the most serious deflations. There has been an illusion of expansion, but it has been achieved only by forcing wives out of the home to work and by pulling students away from their books.

A dramatic turnabout

Only when our government restores the dollar's guarantee will we see real economic expansion and a rising standard of living. But when it happens, it will happen dramatically. With faith in the dollar restored, interest rates will fall to low levels and the economy will blossom with the return of long-term credit. The housing and automobile industries, which rely on the availability of credit, would lead the way in a buoyant economy and a buoyant stock market.

And yes, we need to get the *individual* investor back into the market, especially those willing to take the risks in developing new enterprises.

Buying stock is buying a piece of the future. And with the benefit of our hindsight, the future looks potentially bright. There has already been a major shift of attitude against tinkering with the dollar's value. And the government has now seen that the tax system cannot be used to punish productive effort and investment.

Much remains to be done. But when the reduction in tax rates is finally in place, and a sound dollar restored, the stock market will be a comfortable place for the American investor to be.

What Opinion Leaders Think

Reported by
Kenneth Schwartz
Vice President,
Opinion Research Corporation

In the eyes of the nation's opinion leaders, the individual investor's participation in stock market trading will decline or stay the same rather than increase.

The Opinion Research Corporation surveyed 500 opinion leaders in the worlds of business, media, academics, labor, government, and public interest groups to learn their views of the future of individual investors in the stock market. Interviews were conducted on behalf of The LTV Corporation during the month of February 1982.

The general outlook for participation by the individual investor is pessimistic — prediction of decreased participation is especially high among labor leaders (51%), public interest group leaders (46%), and academics (44%). Only business executives seem somewhat optimistic — 39% feel participation will increase, though as many as one in three feel it will do no better than stay the same.

Leaders who think individual trading will decrease were asked why. The prime reason was that other financial vehicles, such as pension, money market, and mutual funds are more attractive than the market to today's more sophisticated investors. Another important reason is general concern over economic conditions, inflation and stock market instability.

Institutional involvement thought positive

Opinion leaders as a group do not seem overly concerned about the growing dominance of stock market trading by institutional investors. Overall, in fact, 37% of those surveyed felt this institutional activity was "good" as opposed to 27% who termed it "bad". The main exception was the group of public interest group leaders: 43% felt institution involvement was a bad trend.

Leaders were asked their views on the effectiveness of recent tax law changes, designed to encourage individual investors. Their opinions were divided.

Those who think further changes in tax laws are needed think the two most significant incentives would be (1) eliminate or revise the capital gains tax and (2) eliminate double taxation of dividends.

How LTV Is Involved

Speaking for LTV,
Paul Thayer
Chairman of the Board
and Chief Executive Officer

The stock market. Is there a future in it for the individual investor? Apparently a great many individual investors think so. Today, one in every seven Americans is a stockholder. And almost half of those shareowners are in families with total annual income of $25,000 or less.

Millions of individuals in this country own stock in the companies for which they work. Through various employee stock purchase plans, they develop a direct financial involvement in the future of their companies and in the growth of our economy in general.

Individual involvement in the market is the very cornerstone of our democratic enterprise system. But is there a future in it for people who want to buy a stake in that system? There is if that system and the nation behind it are as strong as I believe them to be.

The stock market is an important economic barometer. A recovery in the market usually is the forerunner of recovery from a recession. Of equal importance, the stock market is a barometer of the national mood, reflecting the level of confidence people feel in the country.

At the moment, the nation is in evident economic turmoil. The stock market is reflecting this and participation by individual investors has correspondingly waned. In the short term, this is an understandable adjustment to present realities. For the long term, I believe that we can solve our problems — and emerge from the present turmoil stronger than ever.

This country has enormous resilience, a strong collective will and a demonstrated history of overcoming adversity. I believe we will become increasingly competitive internationally, more productive, and able to meet the difficult challenges that face us. I also believe that government, labor, and business will have to work in closer harmony than in the past to make this possible.

Given this latter development, we can look forward to a vibrant economy and to a stock market that will offer a promising future for the prudent, informed individual investor.

About LTV

The LTV Corporation is a diversified operating company involved in four different industries: ENERGY: Continental Emsco Company; STEEL: Jones & Laughlin Steel; AEROSPACE/ DEFENSE: Vought Corporation, Kentron International; OCEAN SHIPPING: Lykes Bros. Steamship Co., Inc.

If you'd like to know more about LTV, write Paul Thayer, Chairman, The LTV Corporation, P.O. Box 225003-13C, Dallas, Texas 75265.

LTV

The LTV Corporation
Dallas, TX 75265

Should Congress Have Veto Power Over Regulatory Agencies?

This Is Where I Stand:

YES ☐ Regulatory agencies too often assume greater powers than Congress intended to confer on them, and they can seriously harm many businesses if not restrained. Congressional authority to block implementation of unwarranted regulations is the most effective way to curb regulators and assure that they are responsible to their ultimate employers, the people.

NO ☐ Giving Congress veto power over every regulation issued by every agency could disrupt the normal functioning of government and bog Congress down in a mass of technical details. Established judicial procedures and the agencies' own rule-making processes offer citizens ample opportunity to challenge unfair or unreasonable regulations before they cause harm.

Mail to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062

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VERDICT: Require a Balanced Budget

An overwhelming vote of approval for a constitutional amendment requiring a balanced federal budget was cast by NATION'S BUSINESS readers responding to a poll in the August issue.

More than 94 percent of those replying supported the argument that only the power of an amendment would assure an end to deficit federal spending, except where necessary to deal with defense or other emergencies. A small minority agreed with the view that an amendment would deny Congress the flexibility it needs to set economic policies that meet changing conditions.

A balanced budget amendment has been approved in the Senate and awaits action in the House.

Results of the monthly "Where I Stand" polls are brought to the attention of key decision makers in Congress, the White House and appropriate federal agencies.

How To Build A Growth Company

Here are 10 commandments that will help you bypass potholes on the road to entrepreneurial success.

ILLUSTRATIONS: WILLIAM COULTER

THE DEDICATED entrepreneur whose identity is indistinguishable from that of his or her company may be heading for problems, says an expert on growth companies.

When a fledgling business starts to grow, writes Steven C. Brandt of the Stanford University Business School, the founder must either change with it or see its growth falter.

But a person too close to an enterprise may not have the perspective to know when and how to change, Brandt adds. His solution: Draft in the enterprise's formative stage an internal operating plan showing what those involved intend to do, by when, with the human and financial resources available.

The suggestion is contained in Brandt's new book, *Entrepreneuring* (Addison-Wesley Publishing Company, Reading, Mass.; $12.75). The book offers "10 commandments for building a growth company."

Brandt says that the rest of the century offers significant opportunities for entrepreneurs because "change favors entrepreneurs and . . . there's plenty of big change to go around."

In the 1980s and 1990s, he says, "an increasingly well educated, healthy, enviro-energy-conscious and expanding population will stimulate and support a continuing flow of new industrial and consumer business opportunities that are compatible with the worldwide realities of the times . . ."

His book was written for the founders and managers of growth companies—those "intent on building a bigger enterprise," Brandt notes. He has been there himself. In addition to an academic career, he has had a business career that has included the presidencies of three growth companies.

Brandt warns that his 10 commandments, "even followed to the letter, will not automatically make you rich, beautiful, handsome, fulfilled or whatever." He adds: "The record indicates that the primary requirements for success are an identifiable and receptive market, a 'better mousetrap,' sufficient capital, a balanced team to lead the way, tenacity and thoughtful timing (some people call it luck)."

His commandments, he says, are intended to help entrepreneurs "weave these ingredients together in a pragmatic way and to avoid some of the

more common operating mistakes entrepreneurs tend to make."

These are Brandt's commandments for business people seeking growth:

I Limit the number of primary participants to people who can consciously agree upon and contribute directly to that which the enterprise is to accomplish, for whom and by when.

There are many reasons people become involved in young, growing companies as owners, investors or key employes. The broad range of satisfactions sought runs from an opportunity for personal expression on one end of the spectrum to capital gains on the other. Unless there is compatibility between what each primary participant wants out of the business, debilitating conflict is likely to ensue. The process of trying to consciously agree on the purpose of the enterprise is often difficult and revealing.

II Define the business of the enterprise in terms of what is to be bought, precisely by whom and why.

Businesses are organs of society that perform tasks associated with providing most goods and services the public decides it wishes to own and use. Under this capitalistic system, a business can prosper to the extent it performs its particular tasks effectively and efficiently within the law. The nature of the tasks to be performed usually changes over time as those served change. The successful company predicts and responds to its chosen customers' needs. Customers, therefore, define the business. At all times, some customers are growing in their ability to buy; others are declining. The astute manager ascertains which is which.

III Concentrate all available resources on accomplishing two or three specific, operational objectives within a given time period.

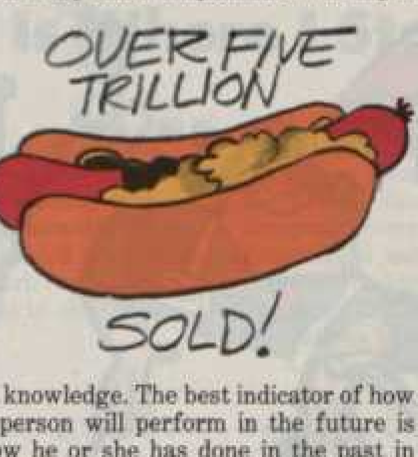
Enterprises have finite resources. A smaller company achieves competitive advantage when playing for limited, explicit gains in a marketplace of its own choosing. Specialization breeds an organization sensitive to opportunities and quick to act. But any advantage withers if follow-through is weak. It will be weak if resources are dissipated. Resource dilution is a sure formula for mediocrity, a state of being that aspiring growth business cannot afford.

IV Prepare and work from a written plan that delineates who in the total organization is to do what, by when.

Until committed to paper, intentions are seeds without soil, sails without wind, mere wishes that render communication within an organization inefficient, understanding uncertain, feedback inaccurate and execution sporadic. Without execution, there is no payoff. The process of committing plans to paper is easy to postpone under the press of day-to-day events. In the absence of a document, fully coordinated usage of the resources of the business is unlikely. Each participant travels along a different route toward a destination of his or her own choosing. Decisions are made independently, without a map. Time is lost, energy squandered.

V Employ key people with proven records of success at doing what needs to be done in a manner consistent with the desired value system of the enterprise.

People do what they like; they like what they know. Experience adds depth



to knowledge. The best indicator of how a person will perform in the future is how he or she has done in the past in the same or related activity. Criteria for selecting key people is dictated by the plans, the blueprints, for the business. A brickmason is not needed to construct a wooden building. The plans reflect the operational objectives, the workaday culture and the intentions of the primary participants. The interests and capabilities of a key new person must harmonize with all three.

VI Reward individual performance that exceeds agreed-upon standards.

Performance above the perfunctory level is a discretionary matter for each employe. Most people have alternative, off-the-job ways of utilizing excess energy or talent. Channeling such excess into activity beneficial to the business requires a tailored approach to each individual. A manager must first ensure that there is an understanding of the minimums. Then, for performance above the minimums, forms of compensation important to the performer—or in some cases, teams of performers—must be utilized.

VII Expand methodically from a profitable base toward a balanced business.

Optimism is both the poison and the antidote of the growth company manager. It may be possible to accomplish all things, but not simultaneously. With limited resources, sequential growth over time is the judicious prescription for prosperity. Seek logical, incremental extensions of existing activities, but avoid a growth-for-growth's-sake psychology. Bigger is not automatically better; more is not necessarily merrier. Make managing a competitive advantage. Increase customer dependency on the enterprise. Economic success can breed more of the same and/or other returns for the primary participants. Money is the traditional reward; lifestyle considerations are becoming more widespread.

VIII Project, monitor and conserve cash and credit capability.

Cash flow is the blood of a growth business. A company's ability to continue is determined daily, not at year-end, by the contents of the checking account rather than the financial statement. Keeping money in hand or readily available for both planned and unplanned events is not only prudent but necessary in unsettled times. Cultivation of financial sources is an enduring duty.

IX Maintain a detached point of view.

Managing a growing business requires unyielding dedication that can consume the body, impair the senses and warp the mind. Such effects are harmful to the individual and the enterprise. Clinical objectivity is the only preventive. Growth implies and entails risk. Risk begets failure as well as successes. Wide perspective gained through nonbusiness experience or study helps one endure the pressures and accept with equanimity the results, good and bad, of business decisions.

X Anticipate incessant change by periodically testing adopted business plans for their consistency with the realities of the world marketplace.

The past will not come again. Neither isolation nor insulation from tomorrow is possible. The problems of the times are the opportunities of the times, as always, but the strings attached are multiplying. Governments and new competitors, domestic and foreign, will increasingly affect the conduct of a given business. So will social evolution. Despair is of little value. Vigilance is. □

To order reprints of this article, see page 81.

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GOODYEAR
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He Retired to a 70-Hour Week

Carl G. Sontheimer's quiet little retirement corporation launched the home food processor and sank his plans to take life a bit easier.

After he retired in 1969 at age 55, Carl G. Sontheimer, a successful entrepreneur and inventor, wanted to create a small corporation to keep from being bored. He had in mind an enterprise that wouldn't be too demanding and could combine business with pleasure.

The enterprise turned out to be Cuisinarts, Inc., and its food processors—the versatile machines that in a wink cut, chop, slice and perform myriad other tasks for the cook. Sontheimer now puts in 70 hours a week in his "retirement job."

Sontheimer, a Massachusetts Institute of Technology-educated physicist with numerous electronics inventions and 47 patents to his name—some of his microwave devices are on the moon—first considered the home security field as a way of capitalizing on his electronics expertise. But he quickly decided he was bored with electronics and instead turned to a hobby he had pursued since 1939—cooking.

He and his wife, Shirley, then a financial executive at Hudson Institute, the well-known think tank, planned to import and distribute top-quality cookware and eventually switch to manufacturing a product.

As a youth, the New York-born Sontheimer had spent seven years in the public schools of France where his father, an import manager for a chemical firm, had taken his family. Sontheimer decided to use his French connection in his new venture.

He chose the name Cuisinarts for his corporation, combining cuisine and arts, because it could be pronounced by speakers of French and English. (The preferred pronunciation: queasy-narts.)

When he selected the name, he had no idea there was such a thing as a food processor. He and his wife were attending a Paris trade show in 1971 and spotted one made for the restaurant trade.

The Sontheimers located the inventor, Pierre Verdun, whose firm, Robot-Coupe, was manufacturing the machine. Sontheimer asked whether Robot-Coupe was considering a smaller version of the machine for home use. Yes, there was a prototype, Verdun said, and in no time Cuisinarts became U.S. distributor for the forthcoming food processor.

When three of the prototypes arrived in the United States, Sontheimer recognized that he had a monumental problem: The machine had no safety features. "It was simply too dangerous," Sontheimer says. But he recognized the machine's potential and once again turned himself into an inventor. For 18 months he stubbornly worked on a redesign, and when he was satisfied, he asked Verdun and Robot-Coupe to produce the food processor to his specifications. Robot-Coupe did so until 1977, when Sontheimer turned to a Japanese manufacturer.

The Cuisinart food processor was unveiled at the National Housewares Exposition in Chicago in January, 1973. It got attention but no wild applause. At $140, many people considered it a grossly overpriced food blender. Sontheimer mounted a personal campaign to educate America's cooks. He induced television cooking expert Julia Child and respected food writers such as James Beard to witness demonstrations of the processor's versatility and use the machine themselves. Articles in major publications brought the appliance to public attention, and sales began to climb, from a few per month into the hundreds.

Carl Sontheimer's little business, with an estimated $100 million in annual sales, is now an industry leader in food processors—a dozen other brands have joined Cuisinart in the marketplace. He holds several patents on his redesigned machines, which are available in three versions. The smallest and least expensive is assembled at the firm's plant in Norwich, Conn., not far from corporate headquarters in Greenwich. A Japanese firm manufactures and assembles the two larger appliances and ships them to Norwich, where Cuisinarts experts routinely examine 10 percent of the shipment.

If one item is found defective, half of the shipment is checked. If a second defective item is then turned up, 100 percent is checked. And each unit in that first 10 percent is broken down for a check of tolerances to ensure that the Japanese contractor is maintaining a high quality level.

"Quality control is a battle you can win," says Carl Sontheimer, "but to win you have to fight the battle every day."

In addition to food processors, the firm sells a portable convection oven, stainless steel cookware and cutlery, food processor accessories and other professional-quality cooking equipment.

Sontheimer's 1969 retirement came two years after he sold profitable Anzac Electronics, the fifth company he had founded. In the interim between Anzac and Cuisinarts, he dabbled in journalism as an assistant food editor for a weekly Connecticut newspaper. It may not be surprising therefore that the Cuisinart Cooking Club, which his company established, publishes cookbooks and a bimonthly magazine, *The Pleasures of Cooking*, which has a circulation of 83,000.

Still going strong at 68, Carl Sontheimer, a man who is reshaping the American kitchen, no longer talks of retiring. □

—Grover Heiman

Detection Story: Three-Way Payoff

Frederic King has started a business with a three-way payoff.

First, he notes, potential victims of stroke and other blood vessel ailments benefit from his enterprise, which provides doctors and hospitals with centers where vascular diseases, as doctors call them, are detected. The detection is through proven technology that eliminates "breaking the skin" in exploratory surgery, he says.

The doctors and hospitals benefit, too, because they get fully equipped and staffed diagnostic facilities without the financial and operational headaches. And, of course, King's company, Vascular Diagnostic Services, of Phoenix, Ariz., profits.

King, who has been a financial officer at three medical centers, observed some time ago that many physicians and rural hospitals had been slow to adopt the noninvasive technology. He opened two testing centers in Phoenix last year. In the course of giving 1,500 tests each, the centers gave King managerial and technical experience that led him to form VDS last April and begin selling health professionals on VDS-run centers.

Contracts are already signed for eight centers, and King predicts 25 to 30 will be in operation by early next year. He considers sun belt states with large concentrations of senior citizens to be prime growth areas for him.

"Each year more than 2 million older Americans are affected by diseases of the arteries and veins," King says. "Early detection is imperative." For many persons, however, test sites are located inconveniently at big-city medical centers far from their homes.

It takes VDS about 10 weeks and about $125,000 to open a center. The company, thus far financed by a handful of individual investors, provides all equipment and maintenance, a trained technician and clerk, billing and cash collection, promotion and advertising, and operating funds.

All procedures are on an outpatient basis. Since the skin is not broken, there is little risk or discomfort—tests take an hour or less. Blood pressure cuffs, computers and ultrasonic scanners measuring the volume of blood flow are used to search for clogged or diseased neck arteries, and leg arteries and veins. Physicians interpret the test results; each test costs $175 to $200.

Physicians or hospitals just provide the space, about 150 square feet, and pay for utilities.

PHOTOS: VASCULAR DIAGNOSTIC SERVICES

Frederic King (left) launched a company that runs centers for vascular disease detection.

Though King doesn't like to talk about profit potential, the outlook is favorable. The doctor or hospital receives 20 to 25 percent of gross fees; VDS takes the rest.

About 50 percent of patients referred to VDS centers are diagnosed and treated without further testing. The others, with more serious vascular problems, usually need additional procedures to pinpoint their disease.

King hopes eventually to provide doctors and hospitals with educational materials, to be passed on to the public, on how to fight vascular disease.

Meanwhile, he is busy trying to get health professionals to sign contracts for VDS centers. He thinks he has just scratched the surface.

Friendly Drug Catcher Is Welcome in Schools

As an FBI agent, Daniel R. Brainard didn't always get his man. But Brainard's dog Chip always succeeds in *his* pursuit of lawbreakers.

A 4-year-old Labrador, Chip sniffs out drugs in school lockers, school desks and school parking lots. His frequent and unscheduled visits don't panic the student body; instead, the appearance of the big friendly fellow is the highlight of a school day.

"A dog has an emotional impact on kids. A dog has credibility," says Brainard, 43.

On that premise and with his love for children and his hatred of drugs, Brainard has created a unique business with offices in Austin and San Antonio, Tex., and Tulsa, Okla. Three years ago he formed Maximum Security Systems, contracting with elementary and high schools to ferret out marijuana, cocaine, heroin and other drugs prevalent in many schools today.

"Chip and I meet with the faculty first," says Brainard, "then in an assembly with the students. They get to pet Chip, walk him, try to hide things from him—in other words, become his friend.

"And I talk to them about drugs, how I saw lives ruined by drugs when I was with the FBI in the Los Angeles area for three years and how Chip and I are at their school to keep them out of trouble."

Brainard tells the students that they have a week to get rid of any drugs they might have and that then he and Chip, or another handler and another dog, will be coming back to their school

The antidrug work of Daniel Brainard and his dog Chip includes flights to oil company rigs.

regularly to make sure the drugs are gone. When a find is made, the information is given to school officials to act on as they wish.

Maximum Security Systems is growing and now has several trainers and 12 dogs. It charges $4.15 per student for a year's contract and this year will work with 30,000 students.

Occasionally it accepts a spot job from oil companies troubled with drug use by workers on rigs.

A well-trained narcotics dog sells for $5,000 to $7,000, says Brainard, and on the job one dog can be of more value than a half-dozen officers.

Chip and his fellow canines are trained with actual drugs, which Brainard secures from official sources. The dogs seek out the drugs not because they like narcotics but because of the trainer's reward after a find—perhaps the toss of a ball or a wrestle in the grass.

For Brainard and school officials, the reward sometimes shows up in graffiti, as on the wall of one school locker room: "Dope is Dumb."

Farm Belt Survival In a Recession

How do you survive in a recession when many of your competitors in the agricultural implement business are really hurting?

"We don't try any wild ideas," says James C. Donahue, president of the Donahue Corporation, of Durham, Kans., a manufacturer of transportation equipment for agricultural machinery. "We've refined our product lines and worked harder."

One example of refinement is what was done to the Donahue combine carrier, a trailer used in moving the army of combines that start harvesting wheat in Texas in the spring and work their way north.

A 12-foot-wide trailer is needed to carry a giant combine. It is legal to run such oversized loads on highways, but a contractor can't legally return the trailer empty—the maximum legal width of a trailer without a load on a highway is 8 feet.

So the contractor either risks a fine or waits for a load—hardly efficient use of a trailer.

But now Donahue has redesigned his carrier. It has become an 8-foot trailer that can be expanded to 12 feet and shrunk back to 8. Result: sales.

The new carrier isn't the only good idea Donahue has come up with. In the 1950s, while he was still working as a welder for the Boeing Company in Wichita, a long commute of 75 miles each way from his home in Durham gave him lots of time to think about the problems farmers had in moving outsized equipment from one location to another. Out of this musing came the Donahue implement carrier, a long flatbed trailer that had a unique feature—the bed could be pulled ahead of the wheels to lie flat on the ground. Machinery could then be moved onto the bed, after which the bed could be backed up over the trailer's wheels and locked into position for transporting.

Donahue got the idea patented and started manufacturing operations in 1962 in a converted lumberyard building in Durham. First-year sales were $20,233.

During the 1960s, Donahue was constantly on the road, getting dealers to handle his output. He was bucking conventional wisdom for a small firm just starting out—he was selling directly to dealers around the country a product he was manufacturing himself. Durham's Tampa State Bank thought he could handle it, though, and through the SBA guaranteed loan program advanced him $33,000 in 1964 to expand a business started with his own savings.

"I quarterbacked, but a lot of good people made up the team, not the least being my wife, Joan, who is really special," Donahue says.

He now has eight different types of transporters. All are made in a modern plant at Durham that employs 41, down from a peak of 74 in 1974, but far more than the two employes that Donahue started with.

Sales this year are expected to be about half the record $6.8 million posted in 1975, but Donahue says his firm has financial stability—he amassed a cash reserve before the recession—and he is looking for opportunities.

"There are still a lot of great ideas out there, somewhere, waiting for inventors," he says. □

PHOTO: DONAHUE CORPORATION

James Donahue got his start with this carrier that can be pulled flat for loading.

Keep Your Eye on These Increases

By Samuel H. Murray

The web of tax increases woven by Congress this summer will affect business in many ways. Here are some of the changes that business owners and executives must take into account as they plan for the year ahead.

Smaller Harbors

So-called safe-harbor leasing has been restricted. This type of transaction, though cast in the form of a lease, is actually a way of selling tax benefits. A firm that cannot use investment tax credits and depreciation deductions because it doesn't owe enough tax sells the benefits to a firm that can.

The tax increase bill severely restricts this strategy and repeals it altogether on Dec. 31, 1983. Among the restrictions:

- Purchasers of tax benefits cannot reduce their tax liability by more than 50 percent.
- The purchase of an investment tax credit must be spread over five years instead of taken all at once.

Now that the advantages are worth less, firms that want to sell their tax benefits may find fewer companies willing to buy. And those looking to purchase the benefits will offer much less.

However, in 1984 certain restrictions on conventional leasing will be relaxed, giving business more opportunity to dispose of tax benefits on better terms.

Reduced Preferences

Certain corporate income tax deductions have been treated as preferences for computing the add-on minimum tax. The 1982 tax increase reduces the deductions 15 percent when the firm computes its income tax and 71.6 percent when it figures the add-on minimum tax. However, the taxpayer need not reduce intangible drilling costs and mineral exploration and development costs 15 percent if he elects to capitalize and amortize them over several years.

Several new deductions are now classified as preferences, including the part of a domestic international sales corporation's income that qualifies for tax deferral. This is worth 15 percent less as a preference, so more of DISC income must now be reported for regular tax as well as for the add-on minimum tax.

Another new preference: interest deductions for carrying tax-exempt bonds. Individuals can't deduct interest on loans that enable them to buy such bonds, but financial institutions can—and now this deduction is reduced 15 percent when income tax is figured.

Slower Acceleration

The 1981 tax act allowed depreciation under the 150 percent declining balance method. This was scheduled to increase to 175 percent in 1985 and 200 percent in 1986. But the new bill repeals those increases.

Bigger Barriers for Bonds

Roadblocks have been erected in the way of industrial development bonds, issued by state and local government authorities to finance private projects. Because IDB interest is tax-exempt, the stated rates are 3 to 4 points below those of corporate bonds.

Many small businesses qualify for IDB financing. "Small-issue" IDBs are normally limited to $1 million but under special rules can be as much as $10 million.

The 1982 tax legislation repeals the "small issue" exception for IDBs issued after Dec. 31, 1985.

In the meantime, the local authority must comply with a whole new set of procedural requirements for issuing IDBs. Moreover, Congress has listed projects that may not be financed with IDBs, including private or commercial golf courses, tennis clubs, race tracks, etc. No more than 25 percent of the financing of certain other projects, including retail food and beverage facilities, can come from IDB proceeds. Financing fast-food outlets this way will thus be more difficult.

Finally, the term of these bonds may not be 20 percent longer than the average useful life expectancy of facilities constructed with the proceeds from the bonds.

Speedier Corporate Taxation

Large corporations—those having $1 million of taxable income in any of the three prior years—must now make estimated payments equal to 80 percent of their final tax liability. Starting in 1983 the figure becomes 90 percent.

If they fall short of the 90 percent requirement but still meet the 80 percent level, only three quarters of the penalty for underpayment will be assessed.

At present, when additional tax is due above the estimated payments, the corporation may pay half the balance 2½ months after the close of the taxable year and the remainder with the tax return. Beginning next year, the full balance must be paid within 2½ months of the end of the taxable year.

The changes are not likely to worry cash-rich corporations, but firms that have cash-flow problems may have to increase short-term borrowing.

No More Current Deductions

Until Congress acted this summer, most corporations were allowed to deduct all interest costs and real estate taxes as they were incurred during construction. Except on residential property, such current deductions are becoming a thing of the past.

For commercial construction begun after this year, costs must be capitalized and amortized over 10 years. Ten percent is recoverable in the year the costs are incurred; the rest can be deducted over nine years, starting with the year the building is placed in service.

A transitional rule allows a current deduction for hotels and motels, nursing homes and hospitals if approval for construction was sought on or before July 1, 1982, and if construction begins before Jan. 1, 1984. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific and individual cases.*

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Competing In the No.1 Spectator Sport

By John Costello

FOR GENE BOULWARE, the fountain of youth is not a crystal spring gushing out of the sandy soil of Florida, where Ponce de Leon sought it. In his case, it is the seat of a Vega or Chevelle as he races down an eighth-mile or quarter-mile drag strip, door handle to door handle with his rival, at a hair-raising 132 miles an hour.

Boulware, 41, owner of Gene Boulware's Insurance Agency, Chester, S.C., is a "hauler"—a hard-charging drag racer.

He took up drag racing when he was young. "I was about 17," he says, "and we had a drag strip here on an old airport.

"One day, I took my mother's brand-new Pontiac there—without her knowledge, of course—and raced and won. She worked about 30 miles from here. Some people there came up to her and said: 'Is that Boulware boy who won that race any kin to you?'

"You know the rest." That was the last

From start (like that at a drag race, below) to finish (above) auto racing provides thrills that attract millions to a variety of tracks.

time he drove that car in a drag race.

"Then," Boulware says, "I had a '40 Ford with an Oldsmobile engine. I got it at a jailhouse. It was a real sharp car that had been confiscated from bootleggers. I raced about six years. I had the fastest cars around, and everybody talked about me."

It wasn't his mother's ire that finally grounded him, but a bad back.

"I got it playing fullback in high school," he says, "when I was hit from behind."

Isn't that illegal?

"Yeah," he says, smiling. "They got 15 yards, and I got life."

Fifteen years and a spinal fusion later, Boulware was back at the track.

"I tried other things," he explains. "I had a boat. I tried restoring a car. I watched ball games. But none of them really filled the gap. I was bored. So I went back to what I'd done before.

"It was like living my life all over again."

That was in 1981. "The first year," he says, "I was just hanging in. In 15 years, you forget a lot. But this year, I just blowed 'em all out."

Boulware is not bragging. Most of the season, he led the International Hot Rod Association's class for "run-what-you-brung" full-bodied cars that appear as though they could be driven on the street. His car: a Vega with a V-8 Chevrolet engine.

What does it take to be a successful drag racer, besides a 400-horsepower engine? "Well," he reflects, "I think you need confidence. You've got to know you're capable of winning. I'm not telling you it isn't dangerous. Anything can happen. But if you've got the bug, you've got it. I guess it's the challenge.

"I like to do well at what I'm doing. I go all out to win."

PHOTO: HAL CROCKER

Drag racers use special steering apparatus and need protection against fire and fumes.

BASEBALL IS NOT our No. 1 spectator sport. And believe it or not, fans, neither is football.

It's auto racing. Take the word of the 1981 *Survey on Sports Attendance*, published by the Daily Racing Form, Inc. Last year, it says, 54,267,000 turned out at Indianapolis, Daytona and the thousands of smaller tracks to root for their favorite cars or drivers.

Baseball drew only 53,500,000 spectators; thoroughbred racing attracted 51,425,000 and football 51,355,000.

Attendance at auto races has been growing about 1 million a year. And the Sports Car Club of America estimates that 50,000 to 100,000 men and women take part in at least one event a year, officiating or racing.

There are lots of places to see them in action. As many as 2,000 tracks are in use in this country, Goodyear Tire & Rubber Company estimates. That includes drag strips and "bull rings"—small, quarter-mile dirt ovals.

The sport needn't take a back seat to any rival.

Horse racing may be the sport of kings, but racing autos is no pastime for pikers. Brad Niemcek, marketing and promotional racing consultant, says that drivers, car owners and backers spend about $650 million a year on racing. To field a championship auto racing team, like those that compete at the Indianapolis 500, would average $650,000 a year, he estimates. That includes wear and tear on a car that costs about $200,000 new.

But the Indy 500, sanctioned by the United States Auto Club, is big league.

Sizable sums go into auto racing. Many businesses sponsor racers—and quite a few business people race.

PHOTO: FLEISHMAN AND HILLARD

An amateur drag racer can get by for much less—about $10,000 a year, Niemcek says, plus wear and tear on perhaps a $15,000 dragster.

WINNING WAS sweet at 17, and Lyn St. James never forgot the honey taste of victory. "It was a drag race I won in Elizabethtown, Ind.," she says. "I never forgot that feeling of winning. No one can qualify it for you—or take it away."

St. James, the owner of Autodyne, a Dania, Fla., distributor of high-performance auto parts, doesn't need a razor-sharp memory to recall what it's like.

"I've won a lot of races," she says. "I have a lot of trophies.

"What I do is road racing. It's different from drag racing, point to point, or stock-car racing on an oval track. We race a closed-road course, with right-hand turns as well as left, like grand prix racing."

In 1979 she turned professional.

"In auto racing, the term amateur doesn't indicate a level of skill," she explains.

"I'm very proud to be a professional, but that's not a description of my driving ability. It's a description of the kind of races I enter. If it's an amateur race, the winner gets a trophy. If it's a professional race, it's money. That's the only difference. A lot of amateur drivers could run rings around some professionals."

By 1981 St. James had become one of America's most successful professional women drivers. Last year she finished fifth in the Kelly American Challenge races sanctioned by the International Motor Sports Association. It's a series of road races for midsized American sedans.

St. James drove a 3,250-pound Capri with a 302-cubic-inch engine. How many horsepower? "It's supposed to be 440," she says, "but we haven't got it up to that point yet."

Is it tough competing in what's looked on as a macho sport? "I think it's the only sport where women can compete with men on an equal basis," she says. "The machine is the great equalizer. What keeps women out is partly the expense."

Last year St. James picked up $26,000 in prize money, but her annual costs to support her car and racing crew are in six figures.

"Sponsors," she explains, "and your own resources make up the difference."

YOU'D NEVER GET lonesome on weekends if you spent them like Ray Miller. Every Friday, Saturday and Sunday during the season, which lasts as long as there's no snow on the track, he's tearing around tiny one-fourth to five-eighths mile asphalt ovals in modified stock car races.

Not everyone would like his hobby. Hermits, for example, would hate it. There is more togetherness than many would relish when 26 high-powered cars whiz around and around the banked, saucerlike tracks—at up to 140 miles an hour—only inches apart.

Dangerous? Not in Miller's opinion. "In 16 years of racing," he says, "I've been close to a fatal accident only once." The drivers' skill has a lot to do with it. But Miller gives credit to "very stringent safety requirements" imposed by the National Association for Stock Car Auto Racing.

"For example," he says, "we're completely enclosed in a roll cage of steel tubing, have gas tanks sealed with rubber to prevent fires and wear crash helmets and fire-protective suits."

PHOTO: HAL CROCKER

Inside this car is businesswoman Lyn St. James, who wins a lot of road races.

Miller is a chief buyer at Pratt Whitney Aircraft, East Hartford, Conn., a division of United Technologies.

"I got my start at racing in the bush leagues when I was 22, right out of college," he says. "I raced some of the lesser-known oval tracks. What was it like there? Oh, a lot of crashing, banging and patching up cars."

Now, in his '82 Oldsmobile Firenza, with a 600-horsepower, 350-cubic-inch engine, he drives in the big leagues. In his class, he is near the top.

Last year he finished sixth nationally in the modified stock car standings. Even at that level, only three of the people ahead of him race full-time.

The appeal, to him, is partly psychological, partly visceral.

"I always liked cars," he says, "and I enjoy competition. Then there's the thrill of it—the sound of the motors, the smell of rubber and gasoline burning, the roar of the crowd, if you can hear it over the engines."

What is life like at 140 miles an hour? "It goes by real fast," he says.

Sometimes even faster for Gene Felton, long-time owner of Felton Beauty Supply, now building a new auto supply business, Performance Associates.

"In 20 years," says the Marietta, Ga., businessman, "I have done about every type of racing there is. If it has wheels on it, I think I've raced it. But basically, I'm a road racer."

He has competed at Le Mans in France and in Grand National races like the Atlanta 500, Daytona, Sebring and Riverside.

"In the Grand Nationals," he says, "you drive stock cars, highly modified—Buicks, Oldsmobiles, the big honkers. At Le Mans this July, I drove for Billy Hagan's Stratigraph team. That's a 24-hour race."

He has won four national International Motor Sports Association championships and more IMSA-sanctioned races than any other man in history except Peter Gregg, a racing immortal. This year Felton will drive in about 25 major events, half of them more than 500 miles long. Le Mans was 2,500 miles.

What does it take to maintain that grueling pace?

"We're athletes," Felton says, "every bit as much as football players. I work with weights, run, do pushups and whatever else I feel is necessary. I race from February through November, on weekends. That's a heck of a lot longer than the baseball or basketball season. We have to stay in shape."

What's the reward?

"The sense of accomplishment. This is a bigger challenge than most hobbies. I enjoy the travel, and I love the excitement."

Money is not the motive, although he has raced professionally since 1972.

"Maybe 1 percent of all race drivers are really making money," he says. "I think I could make more money pumping gas." □

The Social Security Crisis

ALARMED over the prospect that the principal Social Security program would be bankrupt by 1983 without substantial new revenues, Congress voted in 1977 to raise payroll taxes by $227 billion over 10 years.

Although it is hard to envision $227 billion as inadequate for any purpose, that's the way it turned out. The key Social Security program, which provides benefits to retirees and dependent survivors of deceased workers, is *still* heading for insolvency next year unless a drastic rescue operation is launched.

The first step in that operation is now under way. The National Commission on Social Security Reform is drafting recommendations for major changes in the way the system is financed and in the way benefits are calculated. (See the article on page 88.) Detailed proposals will be submitted to Congress, which plans to make necessary changes in time to head off insolvency, now threatened by next July.

Achieving that goal will be far more difficult than appears from a simple recitation of the official timetable. The difficulties facing the Social Security system involve not only staggering financial needs, but also deep-seated political conflicts and loss of public confidence.

Congress and the administration obviously employed the commission approach to avoid making hard decisions on Social Security in advance of next month's off-year elections. The idea was that the bipartisan panel of public- and private-sector representatives would develop a rescue plan in a form that could be enacted with the blessings of both parties in Congress, thereby minimizing political backlash against either for unpopular decisions.

That is too much to expect from any commission. The panel of experts can do no more than suggest fiscally responsible steps to put the system on a sound footing.

Congress must face up to the political considerations that have emphasized higher benefits at the expense of fiscal responsibility. For too long, such political expediency blocked recognition of the evolving problems of Social Security and then delayed steps necessary to correct those problems.

Changing public attitudes toward the system are a direct offshoot of that procrastination.

Although Social Security for many years was the most popular federal program ever, it lost the image rapidly as its fiscal difficulties mounted.

There are no easy answers. The rate at which benefits have been growing cannot be sustained. Since 1970, Social Security outlays have doubled every five years. They totaled $38 billion in 1970 and will be close to $1 trillion by the end of this century. The tax per worker has gone up more than 1,000 percent since 1970, and substantial further increases are already scheduled in the law.

It is obvious from the numbers alone that Congress must break the runaway tax-and-spending cycle that has carried the program to the brink of bankruptcy.

Some of the answers are already apparent, even before the advisory commission reports: modification of the formula by which benefits are raised to reflect higher living costs, a more realistic retirement age, mandatory coverage of federal and other government workers, and recognition that the system's survival depends in the long run on wage-earners' willingness to finance it. That willingness could erode quickly if tax demands continue upward at the present rate.

In the final analysis, solution of the Social Security problem is as much a matter of congressional realism and courage as it is of complex financial arrangements. □


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